

6/27/77 [1]

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WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
memo w/ attach.	From Lipshutz to The President (4 pp.) re: protection of Yugoslav Consulate in New York/ attached to Hutcheson to Lipshutz 6/27/77 <i>opened 1/29/83</i>	6/25/77	A
memo w/	From Moore to The President (1 pp.) re: Presidential Message to First Sec. Gierak of Poland;	6/11/77	A

FILE LOCATION

Carter Presidential Papers- Staff Offices, Office of the Staff Sec.- Pres. Hand-writing File 6/27/77 ☐ Box 34

RESTRICTION CODES

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- (B) Closed by statute or by the agency which originated the document.
- (C) Closed in accordance with restrictions contained in the donor's deed of gift.

THE PRESIDENT'S SCHEDULE

Monday - June 27, 1977

7:45 Dr. Zbigniew Brzezinski - The Oval Office.

8:15 Mr. Frank Moore - The Oval Office.

8:30 Senior Staff Meeting - The Roosevelt Room.

✓ 9:00 Meeting of the Cabinet. (Mr. Jack Watson).
2 hrs.) The Cabinet Room.

11:00 Attorney General Griffin Bell and Secretary
(10 min.) Joseph A. Califano. (Mr. Jack Watson) - Oval Office.

11:15 Mr. Jody Powell - The Oval Office.

✓ 11:30 Meeting with the Reorganization Project Staff.
(15 min.) (Mr. James McIntyre) - The Cabinet Room.

12:00 Lunch with Vice President Walter F. Mondale.
The Oval Office.

✓ 1:45 Meeting with Secretary Brock Adams et al/
(15 min.) Automobile Safety Issues. (Mr. Jack Watson).
The Cabinet Room.

✓ 2:00 Meeting with Secretary Harold Brown/Commission
(10 min.) on Military Compensation. (Mr. Jack Watson).
The Rose Garden.

✓ 2:15 Congressman Elliott Levitas. (Mr. Frank Moore).
(15 min.) The Oval Office.

THE WHITE HOUSE
WASHINGTON

June 27, 1977

Frank Moore -

The attached letter was signed
by the President and the original
is forwarded to you for delivery
to Richardson Preyer.

Rick Hutcheson

cc: Z. Brzezinski
. Bob Linder

Re: Congressional Request to .
Review Formally a PRM
Options Paper

6/22

THE WHITE HOUSE
WASHINGTON

*to French Moore
to Deliner*

ACTION
FYI

<input type="checkbox"/>	MONDALE
<input type="checkbox"/>	COSTANZA
<input type="checkbox"/>	EIZENSTAT
<input type="checkbox"/>	JORDAN
<input type="checkbox"/>	LIPSHUTZ
<input checked="" type="checkbox"/>	MOORE
<input type="checkbox"/>	POWELL
<input type="checkbox"/>	WATSON

<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER

Comments due to
Carp/Huron within
48 hours; due to
Staff Secretary
next day

<input type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

<input type="checkbox"/>	ARAGON
<input type="checkbox"/>	BOURNE
<input checked="" type="checkbox"/>	BRZEZINSKI
<input type="checkbox"/>	BUTLER
<input type="checkbox"/>	CARP
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input type="checkbox"/>	FALLOWS
<input type="checkbox"/>	FIRST LADY
<input type="checkbox"/>	GAMMILL
<input type="checkbox"/>	HARDEN
<input type="checkbox"/>	HOYT
<input type="checkbox"/>	HUTCHESON
<input type="checkbox"/>	JAGODA
<input type="checkbox"/>	KING

<input type="checkbox"/>	KRAFT
<input type="checkbox"/>	LANCE
<input type="checkbox"/>	LINDER
<input type="checkbox"/>	MITCHELL
<input type="checkbox"/>	POSTON
<input type="checkbox"/>	PRESS
<input type="checkbox"/>	B. RAINWATER
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	SCHNEIDERS
<input type="checkbox"/>	SCHULTZE
<input type="checkbox"/>	SIEGEL
<input type="checkbox"/>	SMITH
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	WELLS
<input type="checkbox"/>	VOORDE

THE WHITE HOUSE
WASHINGTON

Mr. President:

Lipshutz and Jordan concur;
Frank Moore has no comment.

Rick (wds)

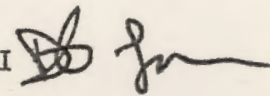
THE WHITE HOUSE

WASHINGTON

ACTION

June 21, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: ZBIGNIEW BRZEZINSKI 

SUBJECT: Congressional Request to Review
Formally a PRM Options Paper

Representative Richardson Preyer, Chairman of the House Subcommittee on Government Information and Individual Rights, has written you (at Tab B) to ask that his subcommittee be allowed to comment formally on options papers presented to the SCC by an interdepartmental committee working on PRM 29 (Comprehensive Review of the Classification System). As Mr. Preyer notes in terms complimentary to you, we have provided copies of this unclassified PRM to Congressional committees with special interest in the subject and informally have solicited their suggestions and ideas for consideration and possible inclusion in the options papers.

We have made every effort to be cooperative with the committees in working on this PRM, but these initiatives have been at the staff level and strictly informal. I believe arrangements going beyond this to permit formal committee review of options papers for the SCC would set a very unwelcome precedent and also would cross the line with respect to the separation of powers. Accordingly, the proposed letter at Tab A for your signature to Mr. Preyer would express satisfaction with the informal consultations that have taken place but observe that arrangements going beyond such discussions would be inappropriate.

RECOMMENDATION:

That you sign the letter to Representative Preyer at Tab A.

THE WHITE HOUSE

WASHINGTON

June 27, 1977

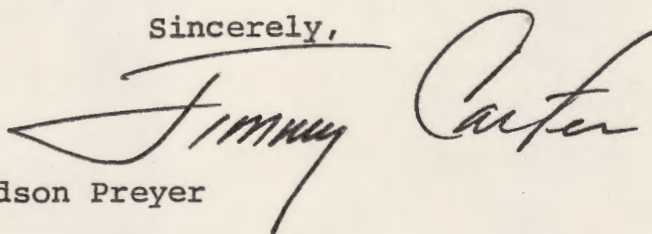
To Chairman Richardson Preyer

I appreciated your letter of June 17 concerning review by the Executive Branch of the security classification system. I am confident that the study presently underway will identify important areas in which we can make available to the public more information on government activities and policies while effectively protecting sensitive national security information.

Because of the high level of Congressional interest in this matter, the Administration has made a special effort to seek out the views and informal suggestions of appropriate committees, including your own. These consultations have resulted in a useful exchange of information and ideas. The thoughts of your staff on those areas of the classification system in greatest need of reform have been particularly helpful to this effort. While I believe arrangements going beyond such informal consultations would be inappropriate, I can assure you that a full range of options for revising the classification system will be considered by the Special Coordinating Committee and will serve as the basis for my decisions and the resulting Executive Order to which you refer.

Again, thank you for your interest in this issue. I share your conviction of the importance of this undertaking and your satisfaction that our staffs have met to discuss the problem. I know the final outcome of our effort will be enhanced by such consultations.

Sincerely,

A handwritten signature in dark ink, reading "Jimmy Carter". The signature is fluid and cursive, with the first name "Jimmy" and last name "Carter" clearly legible.

The Honorable Richardson Preyer
Chairman
Subcommittee on Government Information
and Individual Rights
Committee on Government Rights
U.S. House of Representatives
Washington, D.C. 20515

THE WHITE HOUSE
WASHINGTON

June 27, 1977

Frank Moore -

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by the President and the original
is forwarded to you for delivery
to Richardson Preyer.

Rick Hutcheson

cc: Z. Brzezinski
. Bob Linder

Re: Congressional Request to
Review Formally a PRM
Options Paper

6/22

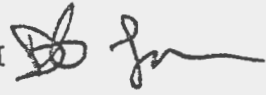
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WASHINGTON

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RECOMMENDATION:

That you sign the letter to Representative Preyer at Tab A.

RICHARDSON PREYER, N.C., CHAIRMAN
LEO J. RYAN, CALIF.
JOHN E. MOSS, CALIF.
MICHAEL HARRINGTON, MASS.
LES ASPIN, WIS.
PETER H. KOSTMAYER, PA.
THEODORE S. WEISS, N.Y.
BARBARA JORDAN, TEX.

J. DANFORTH QUAYLE, IND.
JOHN N. ERLBORN, ILL.

225-3741

NINETY-FIFTH CONGRESS
Congress of the United States
House of Representatives

GOVERNMENT INFORMATION AND INDIVIDUAL RIGHTS
SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS

RAYBURN HOUSE OFFICE BUILDING, Room B-349-B-C

WASHINGTON, D.C. 20515

June 17, 1977

NSC draft for P
20 JUN 1977

The Honorable Jimmy Carter
President of the United States
The White House
Washington, D.C. 20500

Dear Mr. President:

Members of the White House staff have provided the subcommittee with a copy of Presidential Review Memorandum/NSC-29, Subject: A Comprehensive Review of the Classification System, which mandates the promulgation of a new executive order on security classification by September 15, 1977. The subcommittee has further been invited by the ad hoc working group charged with formulation of the order to contribute its ideas to the formulation process.

We are honored by this invitation. It is the first time that this subcommittee has been asked by any Administration to be of assistance, although many of our Members and several of our staff have been involved in lengthy hearings on the classification problem for many years. While we appreciate being asked to participate in these deliberations, it appears that without the continuing opportunity to comment on substantive proposals as they are formulated by the working group, our participation will be virtually meaningless and, in my opinion, ill-advised.

The subcommittee has been informed by the working group staff that it is planning to develop options regarding the new executive order, which will be submitted to the Special Coordinating Committee of the National Security Council on July 6. Reportedly, the NSC will then select those options to be presented to you, which will form the basis for the later executive order.

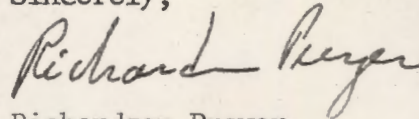
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The Honorable Jimmy Carter
June 17, 1977

Page Two

Let me conclude by saying that I applaud the direction you have taken in opening the government to greater scrutiny, and, particularly, your efforts to strengthen the classification system. The subcommittee which I now chair has had a long-standing interest in these areas, and is indeed pleased with these current initiatives by the Executive Branch.

Sincerely,

A handwritten signature in dark ink, appearing to read "Richardson Preyer". The signature is fluid and cursive, with a long horizontal stroke extending from the middle of the name.

Richardson Preyer
Chairman

LEO J. RYAN, CALIF.
JOHN E. MOSS, CALIF.
MICHAEL HARRINGTON, MASS.
LES ASPIN, WIS.
PETER H. KOSTMAYER, PA.
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TABLE

In early April, the Harris Survey asked the national cross section:

"Now let me ask you about some choices people think we have to make here in America. If you had to choose, do you think that here in this country we might place more emphasis on (READ PAIRS OF CHOICES)?"

	Total Public %
Developing ways to get more places faster, OR	11
Concentrating more on improving those travel modes we already have	82
Not sure	7
Reaching higher standards of living, OR	17
Teaching people how to live more with the basic essentials	79
Not sure	4
Improving and speeding up our ability to communicate with each other through better technology, OR	15
Spending more time getting to know each other better as human beings on a person to person basis	77
Not sure	8
Satisfying our needs for more goods and services, OR	17
Learning to get our pleasures out of non-material experiences	76
Not sure	7
Developing bigger and more efficient ways of doing things, OR	22
Breaking up big things and getting back to more humanized living	66
Not sure	12
Increasing the productivity of our work force, OR	26
Finding more inner and personal rewards from the work people do	64
Not sure	10
Finding ways to create more jobs for producing more goods, OR	29
Learning to appreciate human values more than material values	63
Not sure	8
Controlling inflation by producing more goods to satisfy demand, OR	26
Controlling inflation by buying much less of those products short in supply and high in price	59
Not sure	15
Finding ways to clean up the environment as the economy expands, OR	33
Putting real effort into avoiding doing those things that cause pollution	59
Not sure	8

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220 East 42 Street, New York, N.Y. 10017

THE WHITE HOUSE

WASHINGTON

Date: June 24, 1977

MEMORANDUM

FOR ACTION:

Bob Lipshutz *concur*

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Brzezinski's memo 6/21/77 re Congressional Request
to Review Formally a PRM Options Paper

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME:

IMMEDIATE

DAY:

TURNAROUND

DATE:

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE

WASHINGTON

Date: June 22, 1977

MEMORANDUM

FOR ACTION:

Hamilton Jordan *concur*
Frank Moore *nl*

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Brzezinski's memo 6/21/77 re Congressional Request
to Review Formally a PRM Options Paper

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 10:00 AM

DAY: Friday

DATE: June 24, 1977

ACTION REQUESTED:

☒ Your comments
Other:

STAFF RESPONSE:

☐ I concur. ☐ No comment.
Please note other comments below:

NOTE: Letter should be retyped before going in to the
President.

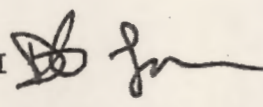
PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required
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THE WHITE HOUSE
WASHINGTONACTION

June 21, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: ZBIGNIEW BRZEZINSKI 

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RECOMMENDATION:

That you sign the letter to Representative Preyer at Tab A.

THE WHITE HOUSE
WASHINGTON

To Richardson Preyer

I appreciated your letter of June 17 concerning review by the Executive Branch of the security classification system. I am confident that the study presently underway will identify important areas in which we can make available to the public more information on government activities and policies while effectively protecting sensitive national security information.

Because of the high level of Congressional interest in this matter, the Administration has made a special effort to seek out the views and informal suggestions of appropriate committees, including your own. These consultations have resulted in a useful exchange of information and ideas. The thoughts of your staff on those areas of the classification system in greatest need of reform have been particularly helpful to this effort. While I believe arrangements going beyond such informal consultations would be inappropriate, I can assure you that a full range of options for revising the classification system will be considered by the Special Coordinating Committee and will serve as the basis for my decisions and the resulting Executive Order to which you refer.

Again, thank you for your interest in this issue. I share your conviction of the importance of this undertaking and your satisfaction that our staffs have met to discuss the problem. I know the final outcome of our effort will be enhanced by such consultations.

Sincerely,

The Honorable Richardson Preyer
Chairman, Government Information and
Individual Rights Subcommittee
of the Committee on Government Operations
Washington, D.C. 20515

RICHARDSON FREYER, N.C., CHAIRMAN
LEO J. RYAN, CALIF.
JOHN E. MOSS, CALIF.
MICHAEL HARRINGTON, MASS.
LES ASPIN, WIS.
PETER H. KOSTMAYER, PA.
THEODORE S. WEISS, N.Y.
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PAUL H. MC CLOSKEY, JR., CALIF.
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225-3741

NINETY-FIFTH CONGRESS

Congress of the United States

House of Representatives

GOVERNMENT INFORMATION AND INDIVIDUAL RIGHTS
SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS

RAYBURN HOUSE OFFICE BUILDING, ROOM B-349-B-C

WASHINGTON, D.C. 20515

June 17, 1977

NSC draft for P
20 JUN 1977

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The White House
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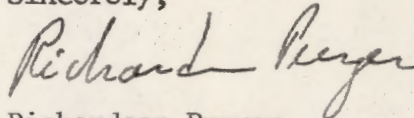
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June 17, 1977

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Richardson Preyer
Chairman

Date: June 22

THE WHITE HOUSE
WASHINGTON

RICHARDSON PREYER, N.C., CHAIRMAN
LEO J. RYAN, CALIF.
JOHN E. MOSS, CALIF.
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NINETY-FIFTH CONGRESS
Congress of the United States
House of Representatives

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THE WHITE HOUSE

WASHINGTON

June 25, 1977

THE WHITE HOUSE
WASHINGTON

SUBJECT: Request by the Department of State for Temporary
Protection of Yugoslav Consulate General in New
York City by the Executive Protective Service

ACTION
FYI

	MONDALE
	COSTANZA
	EIZENSTAT
	JORDAN
X	LIPSHUTZ
	MOORE
	POWELL
	WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to
	Carp/Huron within
	48 hours; due to
	Staff Secretary
	next day

	FOR STAFFING
	FOR INFORMATION
X	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ARAGON
	BOURNE
X	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HOYT
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LANCE
	LINDER
	MITCHELL
	POSTON
	PRESS
	B. RAINWATER
	SCHLESINGER
	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
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	VOORDE

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recommend that
Yugoslav Consulate

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RICHARDSON PREYER, N.C., CHAIRMAN
LEO J. RYAN, CALIF.
JOHN E. MOSS, CALIF.
MICHAEL HARRINGTON, MASS.
LES ASPIN, WIS.
PETER H. KOSTMAYER, PA.
THEODORE S. WEISS, N.Y.
BARBARA JORDAN, TEX.

PAUL N. MC CLOSKEY, JR., CALIF.
J. DANFORTH QUAYLE, IND.
JOHN N. ERLBORN, ILL.

225-3741

NINETY-FIFTH CONGRESS

Congress of the United States

House of Representatives

GOVERNMENT INFORMATION AND INDIVIDUAL RIGHTS
SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS

RAYBURN HOUSE OFFICE BUILDING, ROOM B-349-B-C
WASHINGTON, D.C. 20515

June 17, 1977

NSC draft for P
20 JUN 1977

The Honorable Jimmy Carter
President of the United States
The White House
Washington, D.C. 20500

Dear Mr. President:

Members of the White House staff have provided the subcommittee with a copy of Presidential Review Memorandum/NSC-29, Subject: A Comprehensive Review of the Classification System, which mandates the promulgation of a new executive order on security classification by September 15, 1977. The subcommittee has further been invited by the ad hoc working group charged with formulation of the order to contribute its ideas to the formulation process.

We are honored by this invitation. It is the first time that this subcommittee has been asked by any Administration to be of assistance, although many of our Members and several of our staff have been involved in lengthy hearings on the classification problem for many years. While we appreciate being asked to participate in these deliberations, it appears that without the continuing opportunity to comment on substantive proposals as they are formulated by the working group, our participation will be virtually meaningless and, in my opinion, ill-advised.

The subcommittee has been informed by the working group staff that it is planning to develop options regarding the new executive order, which will be submitted to the Special Coordinating Committee of the National Security Council on July 6. Reportedly, the NSC will then select those options to be presented to you, which will form the basis for the later executive order.

I would ask that the subcommittee be allowed to comment formally upon the options presented to the Special Coordinating Committee by the ad hoc working group. I can assure you that we will treat the matter as one of extreme urgency, and that our review will not delay the timetable which has been established.

THE WHITE HOUSE

WASHINGTON

Date: June 24, 1977

MEMORANDUM

FOR ACTION:

Bob Lipshutz

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Brzezinski's memo 6/21/77 re Congressional Request to Review Formally a PRM Options Paper

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME:

DAY:

DATE:

IMMEDIATE
TURNAROUND

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☒ I concur.

☐ No comment.

Please note other comments below:

[Handwritten signature]

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

1:45 PM
THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM TO: THE PRESIDENT

FROM:

Jane Frank *Jane*

June 24, 1977

RE:

Meeting with Secretary Adams to Discuss
Automobile Occupant Restraint Regulations
Monday, June 27, 1977, Oval Office,
1:45 - 2:00 p.m.

The purpose of the meeting is to discuss what action should be taken on auto occupant restraints to achieve a major reduction in highway deaths and injuries. The following is a summary of rather lengthy materials transmitted by Brock.

Options for Decision on Auto Occupant Restraint Systems

1. Continue with the present occupant restraint standard which requires manufacturers to provide either three point (lap/shoulder) seat belts or passive restraints in all new cars. Brock says that virtually all manufacturers choose seat belts, which only 20% to 30% of car passengers fasten. Seat belt usage needs to be more than 70% to provide the same levels of life and injury saving as would eventually result from a passive restraint standard (ignition lock seat belts or air bags). Several domestic and foreign manufacturers are experimenting with passive restraints--and you may want to reconsider announcing that some kind of regulation will be issued.
2. Mandate seat belt usage--by withholding federal highway funds if state laws are not promulgated and enforced or by providing some other incentive. Brock says that this is the most cost-beneficial way to save lives, but it has little chance of passing the Congress or being adopted by the states.
3. Mandate passive restraints by 1980, or phased in over several years. Brock says that the phase-in approach

would be easier to implement. Air bags would cost about \$100 to \$200 per car. Passive belts would cost little more than the present active belts. Both are so effective in saving lives and reducing injuries because they require no action by the auto occupant.

4. Some combination of the above ideas.

Brock says that the auto industry opposes a passive restraint standard, but favors mandatory belt use laws. Most suppliers of passive restraint equipment favor phased introduction of passive restraints for all cars. The UAW favors phased-in passive restraints and opposes mandatory belt use laws. The insurance industry favors immediate implementation of passive restraints as well as mandatory belt use laws.

Fuel Economy Standards

The average fuel economy standards for model year 1981-84 passenger automobiles will be 22 miles per gallon for model year 1981, 24 mpg for 1982, 26 mpg for 1983, and 27 mpg for 1984. Congress has already set standards of 18, 19 and 20 miles per gallon for model years 1978, 1979 and 1980 and a 27.5 mpg standard for 1985 model year cars.

In the near future, DOT will start proceedings to increase the fuel economy standards for model years 1985 and thereafter--because there is good evidence that the automobile manufacturers will be able to produce and sell a selection of cars that would have average fuel economy better than 27.5 miles per gallon.

Emission Controls

To meet the tougher auto emission standards now being considered by Congress for the early 1980's without much of an effect on fuel economy, the automobile manufacturers will have to use advanced emission control systems. These systems will probably include three-way catalysts that work on hydrocarbons (HC), carbon monoxide (CO), and oxides of nitrogen (NOx) at the same time. They will need electronic control of spark advance, air-fuel ratio, and the exhaust gas recirculation (EGR) rate, to keep the engine operating with good efficiency while cleaning up the exhaust emissions. The U.S. manufacturers are working on these systems and will be using the current versions on some of their California cars this Fall.

It is going to take lots of work and experience to get those systems into all the new U.S. cars in the early 1980's. The Senate bill calls for 0.41 grams per mile HC, 3.4 grams per mile CO, and 1.0 grams per mile NOx in model year 1980 while the House bill calls for almost the same standards in model year 1982. We don't know yet where the emission standards will come out but it is clear that the manufacturers will be working hard to make their engines cleaner while still having good fuel economy in those years. There will be an additional cost for these emission control systems, but it is the cost of controlling air pollution in many of the Nation's urban areas.

Safety Standards

As another point, in a few days Brock will be announcing the measures that must be taken to have still safer cars in the early 1980's. Since we are going to have lighter weight cars from here on, they must be safer. These safety improvements will also add somewhat to the cost of the new cars. They will, however, have only a small effect on the fuel economy of the cars of the 1980's.

55 Mile Per Hour Speed Limit

DOT is proposing that you highlight the importance of the 55-mile speed limit as the summer driving season begins with the July 4 weekend. The national spokesman for the 55-mile program is General Benjamin Davis, the first black general in the Air Force, who Brock says does an excellent job. Brock suggests that you, Davis and he hold a joint press conference on the subject, and that you direct him to report on the status of compliance with the national speed limit, and to submit proposals for greater compliance. Jody has read Brock's recommendation on this subject, and referred it to us. We suggest that you focus on the issue at Monday's meeting.

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THE WHITE HOUSE
WASHINGTON

June 27, 1977

Stu Eizenstat
Frank Moore
Jody Powell

The attached was returned in
the President's outbox. It is
forwarded to you for your
information.

Rick Hutcheson

Re: Status of Legislation Submitted
to Congress in Presidential
Messages

THE WHITE HOUSE
WASHINGTON

ACTION	
FYI	
	MONDALE
	COSTANZA
X	EIZENSTAT
	JORDAN
	LIPSHUTZ
X	MOORE
X	POWELL
	WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

	FOR STAFFING
	FOR INFORMATION
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	JAGODA
	KING

	KRAFT
	LANCE
	LINDER
	MITCHELL
	POSTON
	PRESS
	B. RAINWATER
	SCHLESINGER
	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
	STRAUSS
	WELLS
	VOORDE

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

June 20, 1977

cc Frank
Jody
C
—

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT *Stu*

SUBJECT:

Status of Legislation Submitted to
Congress in Presidential Messages

To date, fifteen Presidential messages concerning domestic
policy have been transmitted to Congress:

1/31	Economic Recovery Package
2/4	Reorganization Authority
2/21	Water Resource Projects
3/1	Department of Energy
3/4	Airline Regulatory Reform
3/9	Youth Employment
3/17	Preventing Pollution in Marine Transportation of Oil
3/22	Election Reform
3/23	Drought Assistance
4/6	Consumer Message
4/21	Energy
4/25	Health
5/3	Ethics in Government Act
5/9	Social Security
5/23	Environmental

The following is a status report on the legislative initiatives
referred to or submitted to Congress in these messages.

Economic Recovery Package: Congress has passed and you have
signed into law the following components of the Economic
Stimulus Program: (1) local public works, (2) public service
jobs and training programs, (3) countercyclical revenue sharing,
and (4) an increase in the standard deduction. The Administration
dropped its request for rebates and cash payments. Congress
substituted its own jobs tax credit for our proposed alternative
of a social security tax credit or increased investment credit.

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for Preservation Purposes**

Reorganization Authority: Legislation restoring Presidential power to submit reorganization plans to Congress has become law.

Water Resources Projects: House floor action on the Appropriations bill on June 14 resulted in a strong Administration showing (the Administration amendment failed, 218-194). The Senate Appropriations Committee has cut half of the projects sought for deletion.

Department of Energy: Bills have been passed in the House and Senate. The conference will begin during the week of June 20. Signing is expected in mid-July.

Airline Regulatory Reform: Legislation to reduce Federal regulation of the domestic commercial airline industry will begin Senate markup on June 21. The House begins hearings next week with testimony from DOT.

Youth Employment: Senate and House conferees completed work on the Administration's youth employment bill on June 16th. The Labor Department is pleased with the results. The conference report will be filed by close of business Tuesday, June 21 and a vote is expected soon thereafter.

Preventing Pollution in Marine Transportation of Oil:

1. Oil Tanker Safety: The Administration's administrative actions have been incorporated fully into the Senate-passed bill. No hearings have yet been set in the House.

2. Oil Spill Liability Fund: The Administration's bill has been introduced in the Senate; hearings will begin shortly in the House where the Murphy bill is very close to the Administration's.

Election Reform:

1. Voter Registration: Bills, with acceptable amendments, have been reported in the House and Senate. The House is expected to vote the week of June 27.

2. Public Financing of Congressional Elections: The Senate committee has voted to report to the floor legislation to provide for public financing of general, but not primary, election campaigns. Hearings are still underway in the House.

3. Hatch Act Reform: Legislation that fully embodies our proposal has passed the House. Senate hearings are expected in July.

4. Direct Election of the President: No action has been taken in the House on several proposed Constitutional amendments. The Senate Committee will mark-up S.J. Res. 1 on June 22. Congressional passage seems unlikely.

The threat of filibuster has clouded prospects for Senate consideration of universal voter registration, public financing of Congressional elections and Hatch Act reform.

Drought Assistance: All but two of the items in this proposal have been authorized and are now in place. Action has been completed on the following:

1. \$100 million in loan assistance for farmers.
2. \$225 million loan and grant program for communities with populations under 10,000 to develop or improve water supplies.
3. \$100 million grant program for agricultural conservation measures.
4. \$100 million "water bank" program.
5. \$30 million emergency conservation measures program.
6. \$13.8 million Southwestern Power Administration supplemental funding to purchase fossil fuel-produced electricity.
7. \$225 million loan and grant program for communities of over 10,000 to provide or improve water supplies.

Action is pending on two programs included in the package:

1. The \$50 million loan program for businesses is caught up in the general review of the disaster loan assistance programs and its chances of passage are uncertain.
2. The House Agriculture Committee has significantly altered the Administration proposal to transfer the emergency livestock feed assistance program from FDAA to USDA. We are trying to get it back on course.

Consumer Message

1. Agency for Consumer Advocacy: Bills have been reported in the House and Senate. Floor action has not been scheduled.
2. Reimbursement for Citizens Participation in Agency and Court Proceedings: Subcommittee hearings completed in House and Senate. Neither subcommittee has completed final action.
3. Class Action Liberalization: A provision has been included in the FTC Improvements Act and has been reported to House and Senate floors. Justice is actively developing the rest of the Administration proposal.
4. Standing Liberalization: Justice is developing these proposals.

Energy

1. Comprehensive Energy Legislation: In the House, hearings have been held and mark-ups begun in the Ways and Means and Commerce Committees. Tentatively adopted at committee or sub-committee level are: residential insulation tax credit; residential regulatory program for insulation; solar tax credit; and insulation program for schools and hospitals. The Administration's gas guzzler tax was modified and adopted without the rebate portion. The well-head equalization tax has been adopted, and consideration of the rebate issue will continue June 20. The Commerce Committee's consideration of the public utility reform program is still underway. In the Senate, hearings on all sections of the plan are proceeding. Mark-ups not yet scheduled.

2. Breeder Reactor: The House will act on the Clinch River Breeder Reactor this week or next. Senate committee action is due tomorrow. The outlook in the Senate is touch and go for deletion of funds.

Health

1. Cost Containment: Hearings have been held by both House subcommittees and by the Senate Human Resources Subcommittee. All intend to mark-up the bill before the summer recess. Senate Finance will not act until either the House passes the bill, or the Senate Human Resources Committee reports out a bill.

2. Child Health Assessment Program (CHAPS): The House Interstate Commerce Subcommittee on Health hopes to hold hearings this month but may not be able to do so until after the recess. The Senate Finance Committee may also take the bill up just before the recess.

Ethics in Government: The Ethics in Government Act of 1977 has been reported by the Senate Government Affairs Committee. No hearings have been scheduled in the House.

Social Security: The Administration's legislation embodying the proposals contained in the message is in OMB's clearance process and so has not been introduced. Secretary Califano testified on the proposal before the Senate Finance Committee on June 13. The House Ways and Means Committee is continuing to hold hearings. No one has proposed an alternative plan to deal with the overall financing problem. Neither Senator Long nor Congressman Ullman, the respective committee chairmen whose committees have jurisdiction, has greeted the proposal favorably.

Environmental Message

1. Reform of the 1872 Mining Act: Administration legislation is due to be submitted by September 1977. Although bills have been introduced in both Houses, no hearings have been scheduled and Congress will probably wait for the Administration's legislation.

2. Wilderness Proposals: No sponsors have yet been lined up to introduce your proposal to expand the wilderness system.

3. Wild and Scenic Rivers: Hearings to be held this summer on proposal to expand the wild and scenic river system.

4. National Trails: No action has been taken on the three National Trails proposed in the Message.

5. Cross Florida Barge Canal: Legislation deauthorizing the canal was submitted by the Secretary of the Army to Congress. No action has been taken. Legislation extending the Ocala National Forest Boundary and proposing a Wild and Scenic River study for the Oklawaha River was not transmitted to Congress because of a last minute appeal by USDA to OMB over the location of the forest boundary. This dispute will be resolved soon. However, Senators Chiles and Stone from Florida have introduced legislation supporting the broader boundaries. No hearings have been scheduled.

6. Antarctic Legislation: The legislation has been submitted but no action has been taken.

7. Alaska "D-2" Lands and Wilderness Issues: The Administration will submit specific recommendations for land designations by September 15. The House Interior Committee held hearings in May on the Udall bill on this issue. The House Merchant Marine and Fisheries Committee held hearings last week on a collective group of Alaska wilderness, refuge and park legislative proposals and USDA and Interior officials testified. House Interior is also holding a series of field hearings through August.

8. Strip Mine Legislation: The conference committee is meeting several times each week. Administration amendments have been partially adopted in both the House and Senate bills. Outlook is good for final passage before the July 4th recess, although several difficult issues may prolong the conference.

9. Outer Continental Shelf Lands Act Amendments: Mark-up begins in House on June 29 and is continuing in the Senate. Timing of final action is uncertain.

10. Redwoods National Park Expansion: The Administration's proposal to expand the park is being drafted into legislation which the House Interior Committee is awaiting. Senate action will be deferred until the House acts.

11. Coal Mine and Metal and Nonmetallic Health and Safety Act Amendments: The Senate Interior and Energy Committees have incorporated the Administration's amendments to strengthen health and safety standards for all mines in legislation transferring MESA to the Labor Department. However, pressure to drop them on the floor is intense. The House will probably not adopt these recommendations in their MESA transfer bill. The outlook for MESA transfer legislation which also improves health and safety standards is not good.

12. Clean Air Act Amendments: The House has completed action and substantially weakened provisions dealing with auto emissions and prevention of significant deterioration. The Senate adopted the Administration-backed provision on auto emissions and defeated the House language weakening prevention of significant deterioration. The outcome in the conference committee is uncertain.

13. Federal Water Pollution Control Act Amendments: Efforts to provide FY 1977 funds for construction of sewage treatment facilities were defeated in the public works jobs bill. Further House hearings on amendments to the FWPCA are expected in July. The Senate's schedule is uncertain at this time. The Administration is working toward submission of amendments dealing with Section 404 (wetlands protection), additional treatment of facility funding, and extension of deadlines for compliance by municipal facilities on a case-by-case basis. These should be ready by July 1.

14. Amendments to the Federal Insecticide, Fungicide and Rodenticide Act: Hearings are underway in the House and Senate.

THE PRESIDENT HAS SEEN. c

THE WHITE HOUSE

WASHINGTON

**Electrostatic Copy Made
for Preservation Purposes**

MEMORANDUM TO: THE PRESIDENT

FROM:

Jack Watson *Jack*
Jane Frank

June 24, 1977

RE:

Proposed Agenda for the Cabinet Meeting,
Monday, June 27, 1977

1. Ten-minute presentation by Secretary Bergland on his recent Far East trip.
2. Appreciation to Brock Adams and Alan Boyd for outstanding work on the U.S./U.K. air agreement.
3. Commend Mike Blumenthal for his recent meeting with national organizations representing state and local governments.* The meeting was universally well-received and Mike effectively carried out the directive in your February 25 memorandum on Cabinet consultation with state and local governments on the development of policy. Other Cabinet Secretaries might consider similar meetings.
4. Thank Cabinet members for attending Democratic fund raiser in New York.
5. Announce that you will meet with most of the Governors Friday evening, July 8, and Saturday, July 9, in Washington on the energy plan. All Cabinet Secretaries are invited and several will be specifically requested to attend. (Correction: you will attend only the Saturday morning meeting.)
6. No Cabinet meeting on July 4.
7. Summarize briefly the results of your meeting with the reorganization team on Thursday, and outline further studies and steps that are about to get underway.
8. Reports from Cabinet members.

* Groups included the National League of Cities, Association of Counties, National Conference of State Legislators, Municipal Finance Officers, and the Advisory Committee on Intergovernmental Relations. I have received several calls commending Mike.

THE PRESIDENT HAS SEEN.

REC'd
6/25
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for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

cc: Stu
Frank
J

MEMORANDUM FOR THE PRESIDENT

FROM

Stu

STU EIZENSTAT
KITTY SCHIRMER

FRANK MOORE

FM

SUBJECT

BARNWELL AND CLINCH RIVER VOTES ON MONDAY

On Monday, the Senate Energy Committee will consider two issues of critical importance to your energy and non-proliferation programs: \$13 million in funding for continuation of activities at the Barnwell, South Carolina private reprocessing facility; and funding for the Clinch River Breeder Reactor. Both issues have become intensely political, and we would like your guidance on how to proceed.

1. Barnwell

Unless the Administration actively opposes it, an amendment to provide \$13 million for salaries and maintenance expenses for the Barnwell facility is likely to succeed in Committee. These funds would keep the facility operating for a year and would bring 385 private employees onto the Federal payroll.

In a letter to you last week, Butler Derrick outlined several possible activities which might be pursued at Barnwell. You indicated an interest in examining what we could do at this facility. We have reviewed the proposals suggested by Derrick, and have concluded (along with Joe Nye at State, Jim Schlesinger, OMB, Gus Speth of CEQ, OMB, and NSC) that the only possible activity is using the spent fuel storage capacity now existing at Barnwell. All of the other proposals are either entirely unnecessary, or are contradictory to our proliferation initiatives.. (A listing of these proposals, with comments, is attached.)

Barnwell has a capacity of 360 MT of spent fuel, or about 12 reactor/years. Even though this could be expanded by another 300 MT, Barnwell's capacity is only a small fraction of that needed to meet domestic needs. The U.S. capacity now in existence will be adequate until 1982, or 1984 if the fuel is reracked. The location of spent fuel storage sites, either for domestic or foreign fuel, is delicate politically. While we believe it can be handled, it will require considerable care in publicizing and gaining political acceptance. The environmental community, on which we will depend for much of our political support, would probably support using Barnwell only if the government were to buy it and either give assurances that no reprocessing would occur at Barnwell, or actually buy and destroy the existing Barnwell facility. A number of other sites, especially Hanford, in Washington, would pose fewer

political problems.

Finally, spent fuel storage at Barnwell would not require anywhere near \$13 million or 385 people. If this were the only activity conducted there, it would do little to solve Butler Derrick's problem, and might well leave him open to the charge that he approved Barnwell as the "garbage dump" for nuclear fuel.

We, State, OMB, CEQ, and Schlesinger recommend that:

- o we oppose the \$13 million for Barnwell;
- o we sit down with Derrick and explain the problems with the Barnwell activities other than fuel storage, and discuss the question of keeping Barnwell open as a candidate for this activity.

Approve ✓

Disapprove JC

2. Clinch River Breeder Reactor

Last Friday, the Committee deadlocked, 9-9 on continued funding for the Clinch River Breeder Reactor (CRBR). Bennett Johnston appears to be the only possible swing vote, and he is currently bound by a commitment to Jim Sasser to continue voting for the breeder.

We have spoken with Sasser, and he has indicated a willingness to release Johnston from his commitment to the breeder if we are prepared to build half of our new centrifuge uranium enrichment capacity at Oak Ridge. (The other half is committed to Portsmouth.)

The total estimated cost of the planned 9 million "separated work units" (SWU) capacity if built entirely at Portsmouth would be \$4.2 billion; it would be \$4.0 billion at Oak Ridge. Splitting the capacity between the two sites might add \$400 to \$700 million in costs over a single facility at Portsmouth, with these costs spread out over 8 to 9 years. Some reductions in this cost differential could occur as a result of having two separate contractor teams working on design, construction, and operating problems, but it is not possible to predict this with certainty now.

If Sasser were to release Johnston from this commitment, we believe that Johnston would be willing to vote with us on Clinch River, especially since we have been working with him on the Outercontinental Shelf/Coastal Zone Impact funding issue.

Would you be willing to reconsider your original decision not to split the two facilities?

not on this
basis JC

COMMENTS ON POSSIBLE BARNWELL ACTIVITIES

1. Safeguards Demonstration Program

The only demonstration which could be run at Barnwell would be a program geared to safeguarding plutonium and reprocessed spent fuel -- the very technologies which we have decided to forego. To undertake such a program now would undercut our credibility on our no-reprocessing decision.

2. Use of the facility to reprocess government spent fuel

The Government currently has more than adequate capacity for weapons plutonium production, the only necessary reprocessing, and no need for additional capability is now projected.

3. Thorium Cycle Demonstration

We are just now beginning an "on paper" evaluation of the potential of the thorium cycle alternative. A commitment to a demonstration program now would be extremely premature. A hardware demonstration of such a program could jeopardize our efforts to gain foreign agreement to the International Nuclear Fuel Cycle Evaluation Program.

4. Evaluation of Coprocessing

Like the thorium alternative, we are just beginning a study of this option and demonstration would not be timely or wise. Should we determine that coprocessing should be demonstrated, the more suitable site would be the Tokai reactor in Japan, which is smaller and more suited to a demonstration program, and would have considerable diplomatic advantages.

5. Waste Management Demonstration

The only demonstration which could be performed at Barnwell is solidification of high level wastes from operation of the plant. The solidification plant has not yet been built and would require substantial government expenditures -- \$750 million if a commercial scale plant were built. In addition, an R & D program for waste solidification at Hanford, Washington, was specifically deleted from your FY 78 budget because it relies on plutonium separation as a first step.

THE WHITE HOUSE
WASHINGTON

June 27, 1977

Stu Eizenstat
Frank Moore

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re: Barnwell and Clinch River
Votes on Monday

THE PRESIDENT HAS SEEN.

900 AM

THE WHITE HOUSE

WASHINGTON

June 27, 1977

C
✓

MEETING WITH REPRESENTATIVE ROSTENKOWSKI

Tuesday, June 28, 1977

9:00 a.m. (15 minutes)

The Oval Office

From: Frank Moore *F.M.*

I. PURPOSE

Rep. Rostenkowski would like to give a message to the President from First Secretary Gierek of Poland and it is also an opportunity for the President to discuss voter registration.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

Background: Rep. Rostenkowski was the United States Representative to the 48th Annual Poznan International Trade Fair. He addressed the opening day ceremonies and, along with Ambassador Davies, hosted a reception for America Day at the Fair. Rep. Rostenkowski carried with him a message from the President to First Secretary Gierek (attached) and met with Gierek on June 13. Much of the meeting was a long, and relatively optimistic, presentation by Gierek about the prospects for the Polish economy. He was at first reserved on relations with the United States, indicating that he did not know the President and that he had not yet felt the positive attitude toward Polish-American relations of which Rostenkowski spoke. He did, however, respond enthusiastically to the message from the President and asked Rostenkowski to convey his best wishes to the President. He also indicated that he looked forward to meeting with the President when it could be worked out and "in the appropriate sequence" -- an indirect reference to the fact that it is Gierek's turn to visit the United States. Rep. Rostenkowski is leary about Universal Registration. The two major newspapers in Chicago are vehemently opposed to the bill because Chicago has such a bad reputation for vote fraud. He fears that if he supports the bill, and there is fraud in the future, he will be blamed because of his support for the bill. There is now an amendment to the bill which would allow satellite registration. The satellite would be one physical location for every x-number of precincts where people could register and vote at the same time. With this satellite, the regular voting precincts would not have the problem of longer lines and thus a longer time for voting. There would be less chance for fraud because the

satellite registrars would be more experienced and since they would be familiar with the precincts, there would be a greater chance of recognizing the voters. (Dick Moe of the Vice President's staff is submitting a more detailed memo to you on voter registration.) Rep. Rostenkowski appears to be against us on the Clinch River Breeder Reactor. He voted against a floor amendment in 1975 to delete funds for the CRBR. Presidential persuasion could help change his position. Rep. Rostenkowski was first elected in 1958, and received 80.5% of the vote in 1976. He is #3 on Ways and Means and Chairman of the Health Subcommittee.

Participants: The President, Rep. Rostenkowski, Frank Moore, Bill Cable, Jim Free.

Press Plan: White House photographer only.

III. TALKING POINTS

1. Discuss the possibility of First Secretary Gierek's coming to the United States on an official visit.
2. Encourage his support of Universal Voter Registration.
3. Encourage his support to reduce the funds for the Clinch River Breeder Reactor to the \$33 million as proposed in the Rep. Brown (California) amendment.

- * Rep. Rostenkowski wanted you to have the attached pictures from the Poznan Technical Fair

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*Gierek
Voter Reg
Cost Contain
CRBR*

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FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
memo w/ attach.	From Lipshutz to The President (4 pp.) re: protection of Yugoslav Consulate in New York/ attached to Hutcheson to Lipshutz 6/27/77	6/25/77	A
memo w/	From Moore to The President (1 pp.) re: Presidential Message to First Sec. Gierak of Poland.	6/11/77	A

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OFFICE OF THE VICE PRESIDENT
WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM: DICK MOE

RE: YOUR MEETING TUESDAY WITH CONGRESSMAN ROSTENKOWSKI

DATE: June 27, 1977

Although I understand this meeting is for another purpose, it would be very helpful if you could again emphasize the importance you attach to the Universal Voter Registration bill and the importance of Danny's support. We now have nearly 200 firm votes for the bill, and he would bring with him up to ten more -- six for certain in the Chicago delegation alone. With his support we have an excellent chance to pass the bill in the House; without it, passage will remain doubtful. He will clearly be the single most important person in determining the bill's fate in the House. I'm convinced he wants to be with you on this, but he has problems in Chicago.

Suggested Talking Points

- This is the kind of issue where the Democrats have to stick together. While we had hoped for some Republican support, we are getting very little, probably no more than ten votes. Therefore we need almost every Democrat, and the leadership has pledged its full support.
- I recognize you have special problems in Chicago, and we are trying to meet them. We agreed to accept the satellite amendment principally to deal with these problems. (Danny has the proposed language of this amendment. It would permit a satellite center for every 25,000 people where persons could register and vote on election day. Advantages: it would eliminate the need to hire new registrars for every precinct, it would allow more highly trained personnel to handle election day registration, and it would reduce congestion in the polling place, which is Danny's greatest concern.)
- We have overwhelming Democratic support from every other major city delegation, including Philadelphia, New York and Los Angeles. The Satellite amendment and other anti-fraud provisions in the bill have persuaded them that they can support

the bill, and we hope that will be the case in Chicago as well.

Other points you may wish to make:

- Local Control - The bill leaves the administration of registration and elections in the hands of local officials where it is now.
- Financial assistance - Substantial federal funds would go to local officials, with few strings attached, for the hiring and training of additional personnel, for the purchase of voting machines and equipment, for fraud prevention efforts, and for other purposes.
- Identification requirement amendment - We intend to accept an amendment which would make the presentation of a form identification (or the voucher of a pre-registered voter) mandatory rather than optional with the states or localities.
- Delay of implementation - We also intend to accept an amendment to make the system optional for the states in 1978 and mandatory in 1980, giving officials more lead time to prepare.

Notes: 1. Danny may propose an amendment which would exempt from the act any community which has pre-registered a certain percentage of its eligible voters, say 75 or 80%. We have told him this would seriously undercut the purpose of the bill by denying unregistered persons the opportunity to register and vote on election day.

2. You may know that the thing he wants most from the Administration is the appointment of Ken Sain, an appointee of Daley's in the city government, as regional HEW director. I understand Joe Califano is not inclined to appoint him, but Danny may raise this.



THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

June 27, 1977

1977 JUN 27 PM 6 39

FOR THE PRESIDENT

FROM JOE CALIFANO *gcf*

I understand you are meeting with Congressman Rostenkowski on Tuesday, June 28. As Chairman of the Health Subcommittee of the Ways and Means Committee, Rostenkowski is a key to House approval of our hospital cost containment bill.

On June 15, I had breakfast with Rostenkowski and discussed the cost containment bill with him at some length then. We have also met with nearly all members of his Subcommittee, and the vote is close at this point.

On different issues associated with the legislation, the votes will break down differently, but we should have enough support to move the bill to the full Committee, at which time we can expect strong support from Chairman Ullman.

I urge you to underline the need for this legislation. The fiscal 1978 savings for the Federal Budget alone totals \$650 million. By fiscal 1980, it will save \$2 billion in federal expenditures.

The hospital cost containment legislation is also critical to your Social Security proposals. It is the \$10.1 billion savings over the critical five year period (calendar 1978-82) that permits us to move \$7 billion from the Health Insurance trust fund to the Disability Insurance trust fund.

Rostenkowski is with us, but he wants to win, and he wants to make sure we are in this for the long haul.

With a good nudge from you, Rostenkowski will report our bill out of his Subcommittee in July.

TRANSFER SHEET

Jimmy Carter Library

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DESCRIPTION:

8x10" glossy black-and-white photo of Dan Rostenkowski and Ambassador Richard Davies at USAPOL '77 exhibition at the 1977 Poznan International Fair

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THE WHITE HOUSE
WASHINGTON

June 27, 1977

Frank Moore -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re: Weekly Legislative Report

THE WHITE HOUSE
WASHINGTON

ACTION
FYI

<input type="checkbox"/>	MONDALE
<input type="checkbox"/>	COSTANZA
<input type="checkbox"/>	EIZENSTAT
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<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

<input type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

<input type="checkbox"/>	ARAGON
<input type="checkbox"/>	BOURNE
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<input type="checkbox"/>	BUTLER
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THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

ADMINISTRATIVELY CONFIDENTIAL

June 25, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

FRANK MOORE

SUBJECT:

Weekly Legislative Report

1. ENERGY

Ways & Means: After our concerted lobbying efforts, the Committee began the final round of voting on the actual text of the bill last week. Our efforts paid off in the final vote on Friday when an attempt to weaken the gas guzzler tax was defeated in a bipartisan 15-21 vote. As the Committee moves into the balance of final votes, you may be asked to make a few critical phone calls. Probably the most harmonious way to proceed is to keep what was tentatively decided upon in the past weeks. We will begin to focus on the Ad Hoc Committee after the July 4 break.

Interstate & Foreign Commerce: The Dingell Subcommittee has concluded most of its markup of its portion of the National Energy Act and will finish the remainder of clean-up items on Monday. Full Committee markup will begin on Tuesday. Congressional liaison staff will be meeting with Rep. Dingell on Monday to review the timetable and the prospective vote count. We feel strongly (as does organized labor) that we should push for a vote in full Committee on deregulation this week. Waiting until after July 10 will only give the industry an opportunity to work over wavering Members when they are back home. Your intervention with Dingell and Staggers may be needed. A breakfast with the entire Committee on Tuesday or Wednesday morning might be valuable. We could use the same format that worked well with Ways & Means last Wednesday.

Department of Energy: Conferees have been appointed by both Houses, but we don't expect final action prior to the recess.

2. APPROPRIATIONS

Labor/HEW: It now appears that the Labor/HEW Appropriations bill (H.R. 7555) will be on the Senate floor on Tuesday. As passed by the House, the bill contains aggregate appropriations of \$54.5 BILLION, \$1.4 BILLION more than our budget request. The bill reported by the Senate Appropriations Committee would add about \$796 million more than the House bill to the controllable items. OMB still believes that we can be successful on the Senate floor with an amendment trimming the controllable items. HEW disagrees. We believe OMB's approach is worth a try if the amendment is carefully drawn to take into account a vast array of political considerations. It is our understanding that Bert Lance and his staff are preparing such an amendment to present to you. We will be ready to search for sponsors and support the amendment, if this approach is selected. *Monitor*

ADMINISTRATIVELY CONFIDENTIAL

-- Sen. Proxmire has an amendment to reduce funding to the Administration's requested level. We suggest the amendment be supported (it will lose badly), with the idea in mind that our major effort be reserved for the OMB compromise.

-- In addition to the funding issues, the bill contains the Eagleton amendment which expands the reach of the Byrd amendment (included in HEW appropriations statutes for two years). The Byrd language provides that HEW cannot, under its Title VI program, require adoption of a desegregation plan if the plan will necessitate busing students beyond the schools nearest their homes. The Justice Department recently interpreted the language to permit busing beyond the nearest school in cases of school systems which reorganize (pair) grade structures in order to desegregate. The Justice opinion was based upon the language of the Byrd amendment permitting busing to the nearest school "...which offers the courses of study pursued by such student..." The Eagleton amendment would allow busing beyond the nearest school only in the case of students requiring special education such as handicapped children. It specifically would not permit busing to facilitate implementation of a grade reorganization plan.

-- The Appropriations Committee also deleted from the House-passed bill an anti-affirmative action amendment which had been adopted on the House floor. A similar amendment is expected to be offered on the Senate floor.

-- As passed by the House, the bill also contained the Hyde amendment to prohibit the use of federal funds to pay for abortions. The Senate Committee added an exception to the prohibition in cases "where the life of the mother would be endangered if the fetus were carried to term" and in other specific types of cases.

-- We can exert little influence on the outcome of these issues (busing and abortion) since Members will be voting according to what they perceive their political self-interest to be. Administration friends (Joe Biden, for one) ask that you be advised that the busing issue is far more explosive than some in the Justice and HEW Departments appear to realize. They point to these Departments' "zealous" pursuit of busing orders "beyond what the law requires," particularly in urban areas in the Northeast, Mid-West, and West and predict dire political consequences as these orders are put into place in the next two to three years.

Public Works/ERDA: The Senate Appropriations Committee deleted funds for 9 of 18 water projects, including the one dropped by the House. White House congressional liaison staff will support efforts on the floor next week to delete funds for all, but the preliminary vote counts are very unfavorable. Many House Members who voted with us on the Derrick-Conte amendment are emphasizing how important it is that the White House stand firm on water projects, indicating that a compromise will hurt us in the House in the future.

We'll stand firm

-- The Senate Appropriations Committee also added \$150 million for the Clinch River Breeder Reactor. We now must decide whether to pursue a floor amendment to knock out this appropriation or to continue to fight the CRBR authorization in the Energy Committee. If we kill the authorization, then appropriations are automatically nullified. If we do not kill the authorization, then funds could be provided for the breeder in several future appropriations bills.

Let's fight every step

Defense: The House began consideration of the bill last Friday and will take it up again next Tuesday. OMB reports that the bill, as reported from the full House Appropriations Committee last Tuesday, is approximately \$3.8 BILLION below the request;

however, transfers from prior year unobligated balances of \$477.6 million are recommended to help offset these reductions. According to OMB, in full committee action, a total of \$780.2 million was deleted in order to conform to the Defense Authorization bill recently reported out of conference.

-- Pending for House floor action on Tuesday is an amendment by Rep. Addabbo to strike \$1.5 BILLION for procurement of five B-1 bombers. In addition, DOD expects (but does not anticipate adoption of) the following floor amendments: 1) some form of proposal against Korea troop withdrawal; 2) the deletion of the double-dipping provision which is now in the bill; 3) deletion of production funds for the non-nuclear Lance; 4) reduction of the A-10 aircraft procurement buy; and 5) an across-the-board cut of 2% or 3% in total appropriations. Others may be offered, including one to reduce CIA funding.

-- The Senate plans to mark up this bill in full committee next Wednesday morning.

Agriculture: The Senate may act on the bill next week. OMB advises that the figures in the bill are acceptable (but recommends that USDA try to limit increases on the Senate floor and work hard to sustain the lowest funding levels possible in conference.)

-- We anticipate a floor amendment, perhaps by Sen. Dole, either 1) to prohibit any sugar payments to both processors and producers or 2) to impose a \$20,000 payment limitation to processors. On a related matter, Sen. Dole may also try 1) to obtain passage of a Concurrent Resolution to disapprove the Presidential decision to reject the International Trade Commission recommendation to impose sugar import quotas or 2) to gain Senate Finance Committee approval of a bill for this purpose.

3. BREEDER AUTHORIZATION

-- Last Friday the Senate Energy and Natural Resources Committee found itself deadlocked on the CRBR issue. Sen. Bumpers' motion to kill the authorization failed on a 9 to 9 vote and Sen. Church's motion to adopt a compromise authorization (\$75 million, no new construction, deferred commercialization) failed on an identical 9 to 9 vote. After the meeting Sen. Jackson offered to change his vote to our position for the purpose of getting the bill out of committee, but with no commitment on his part to support us on the floor. If the bill gets to the floor, we will have difficulty in killing the CRBR authorization since Sen. Baker will line up most of the 38 Republicans, and Jackson, Sasser and Church will vigorously work the Democrats. Of course, the industry lobbyists are already out in force.

-- In the House, the floor vote is not likely to occur until after the July 4 break. Rep. George Brown (D-Cal) is sponsoring our amendment to cut the Science and Technology Committee proposed figure of \$150 million back to the Administration's request of \$33 million. Preliminary head counts look close, but a full White House Congressional Liaison lobby effort has not yet begun. The Speaker's strong endorsement will make prospects brighter.

Fight hard

4. PAY RAISE

On Tuesday, the House will take up a bill under suspension of the rules (no amendments) to deny the October cost of living pay raise (estimated at 6.5% and a cost of \$36 million) for those in the executive, legislative and judicial branches who had major salary adjustments in March of 1977. This is timed to give everyone a vote against a

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pay raise before considering the Legislative Branch Appropriations bill on Wednesday. The Appropriations bill will be considered under a rule (if adopted) making an amendment in order to rescind the March 1, 1977, pay raise for all executive branch and legislative branch employees. There has been a substantial effort by the leadership (in conjunction with White House congressional liaison) to get the rule adopted and the amendment defeated. The vote count is very close -- the rule should pass, but the amendment is too close to predict. There is no more personally emotional issue on the Hill than pay. Your support for the pay raise was tied to a strong new code of ethics which has been adopted by both Houses. A reaffirmation of your support for the increase prior to Wednesday's vote would be sure to get you the good will of almost all 535 Representatives and Senators.

5. PUBLIC EMPLOYEES INTEGRITY ACT

-- Senator Byrd has decided to call up the bill on Monday. This reflects his assessment that the bill is relatively non-controversial and should not unduly delay consideration of Labor/HEW Appropriations which is next on the schedule. We anticipate an amendment by Senator Javits to eliminate the provisions of the bill imputing a spouse's income to the public official. Javits is sensitive to this provision since he was subject to substantial adverse publicity last year due to his wife's intensive business involvements.

-- Although we did not anticipate action this quickly on the bill, we will be visiting Senators on Monday morning urging their support of the bill and their opposition to the Javits amendment. Bob Lipshutz's office will be involved as well.

6. OUTER CONTINENTAL SHELF

-- Dan Tate was approached by Sen. Johnston last week concerning the outer continental shelf authorization that will be taken up by the Senate this week, assuming the Budget Committee grants the bill a waiver at its Tuesday meeting. The Senator was exercised about aspects of the current program that restricts state use of the funds. As Bert Lance mentioned to you on Friday, there are apparently grounds for compromise with the Senator. Johnston is particularly concerned about provisions requiring a state to take loans before grants, and provisions restricting use of the funds to defray costs resulting from new drilling rather than the costs of new facilities constructed to process oil and gas produced at existing drilling sites. Johnston also wanted a switch to a system of non-discretionary revenue sharing, but he is apparently willing to give on this point. We will be working with OMB staff and the Senator to avoid a confrontation on this issue. We understand that the position you expressed on Bert Lance's May 17 options memo relating to maintenance of the current program of loans and grants has been altered slightly. This will give us some flexibility in bargaining with Sen. Johnston, without undermining the basic discretionary loan and grant approach under current law.

7. WHEAT PRICES

-- Agriculture reports that Sen. Zorinsky (D-Neb) sponsored and passed (by voice vote) last Wednesday a Senate Resolution expressing the sense of the Senate that Secretary Bergland should exercise his authority to increase the 1977 loan levels of wheat and feed grains. Acting Secretary White sent a requested letter to Sen. Muskie stating that the Department would disregard the Resolution. Muskie placed the letter in the record and made a speech pointing out such an action would exceed the Congressional Budget Resolution.

*Compromise
ok - about \$40 mil max.*

8. SOCIAL SECURITY FINANCING

-- HEW reports that Rep. Burke's (D-Mass) Social Security Subcommittee (Ways & Means) plans to resume hearings July 18-22 and will invite Members and public groups to testify on a variety of social security issues in addition to the Administration's financing proposals.

-- Hearings continued last week in the Senate Finance Subcommittee on Social Security (chaired by Sen. Nelson). HEW reports that Chairman Russell Long has actively participated in the hearings, questioning witnesses about his proposal to create a new tax to finance the system.

-- The Administration bill is still pending at OMB. HEW and OMB representatives met last Wednesday to discuss their differences. Issues involved include the level of benefits guaranteed during the decoupling transition period, and the question of whether benefits should be indexed to actual retirement rather than age 60.

9. BLACK LUNG BENEFITS

Be conservative

-- Labor Department reports that on June 22, the Senate Finance Committee began markup of the trust fund provisions of S. 1538, a bill which liberalizes the eligibility requirements of the Federal Black Lung Benefits program and establishes an industry-supported trust fund to pay future black lung claims. The Labor Department had testified earlier in favor of the trust fund and its financing mechanism. A report must be filed by the Committee no later than July 12 and Senate floor action could come thereafter if the House acts on a bill. Because of the tax provisions, Sen. Long will not act until a bill comes from the House. The House bill is waiting a rehearing by the Rules Committee, having been rejected previously because several provisions were viewed as too liberal and far-reaching. OMB reports that the Senate version could cut the President's request by \$125 million, and the House version, as amended, would increase the Administration's 1978 request by \$181 million.

10. AIRLINE REGULATORY REFORM

-- The Senate Committee is continuing its "educational" process on the Cannon-Kennedy bill; markup may or may not begin prior to the July 4 recess. The bill they are working from is in a constant state of flux, with changes in the draft coming almost daily.

-- The picture in the House is clouded somewhat by Chairman Anderson's intense preoccupation with the aircraft noise bill. The lead on this issue probably will come from less senior members of the Aviation Subcommittee, such as Reps. Mineta and Levitas.

-- Your participation in the briefing on airline regulatory reform helped emphasize the place of importance the issue hold in the Administration. In addition to what the media coverage did to increase public awareness of the issue, both the briefing and the preliminary meeting sent a message to the Hill, the industry, and other interested parties.

FLOOR ACTIVITIES FOR THE WEEK OF JUNE 27

House

Monday -- H.R. 6666, Legal Services Corporation Amendments. The House did not act on the bill last week because of the time constraints.

-- H.R. 5023, Indian Claims Filing Extension. The House did not act on the bill last week because of time constraints.

Tuesday -- 1 suspension as follows:

S. 964, Eliminating October 1978, Cost-of-Living Pay Increase for Senior Officials of Executive, Legislative and Judicial Branches. To be managed by Rep. Solarz, Chairman of the Post Office Ad Hoc Subcommittee on Presidential Pay Recommendations.

-- H.R. 7933, FY 1978 Defense Appropriations. The bill is scheduled for conclusion of consideration. To be managed by Chairman Mahon.

Wednesday -- H.R. 7932, Legislative Branch Appropriations. To be managed by Rep. Shipley (D-Ill), Chairman of the Legislative Appropriations Subcommittee.

-- H.Res. 656, Establishing a Permanent House Select Committee on Intelligence. To be managed by either Rep. Bolling (D-Mo) or Rep. Gillis Long (D-La), members of the Rules Committee.

Bill Summary: The resolution establishes a 13-member select committee to review and study U.S. intelligence operations, propose legislation, report to the House about intelligence activities and conduct oversight hearings and investigations. The resolution provides the committee with authority to authorize direct and indirect funds for the CIA and its Director, DIA, NSA, State and Defense Department intelligence activities, and intelligence of the FBI. Other appropriate standing committees retain the right to study and review intelligence activities and to have access to intelligence information.

The resolution authorizes the select committee to formulate rules and procedures to prevent unauthorized disclosure of information, and authorizes the Committee on Standards of Official Conduct to investigate unauthorized disclosure by a Member, officer or employee of the House. If the Standards Committee determines that there has been a breach of confidentiality, it must recommend action to be taken.

If the select committee determines that disclosure or classified information would serve the public interest, it must inform the President and allow him five days in which to object in writing. If the President objects, the committee may refer the matter to the House and the House will debate the matter in closed session, and vote on it in open session. The committee also must make a study of intelligence activities and report its findings to the House before the end of the 95th Congress.

Thursday -- H.R. 7010, Victims of Crime Act of 1977. The House did not act on the bill last week because of time constraints.

-- H.R. 6683, Earthquake Hazards Reduction. To be managed by Rep. George Brown (D-Cal), Chairman, Environment & the Atmosphere Subcommittee (Science & Technology Committee).

Bill Summary: The bill establishes a national earthquake reduction program under the President's direction to minimize loss and disruption resulting from future earthquakes. It authorizes \$27.5 million in FY 1978, \$35 million in FY 1979, and \$40 million in FY 1980 for the National Science Foundation and identical amounts for the U.S. Geological Survey, plus \$5 million for general purposes. According to OMB, the Administration supports enactment of the bill with one amendment. OMB would prefer deletion of a requirement that the President submit to Congress an explanatory report in cases when Executive actions mandated by the bill are delayed more than 30 days.

- The following conference reports also may be considered by the House during the week:
FY 1978 Defense Authorization, Treasury/Postal Service Appropriations, Youth Employment, and Interior/Related Agencies Appropriations.

Senate

Monday -- S. 555, Public Officials Integrity.

-- Labor-HEW Appropriations.

Tuesday -- Labor-HEW Appropriations.

Then the following (not necessarily in this order):

-- Military Construction Appropriations.

-- Agriculture Appropriations.

-- ERDA-Public Works Appropriations.

-- Ex-Im Bank Authorization. *

-- ERDA (military) Authorization. *

-- Outer Continental Shelf *

-- Child Nutrition Authorization *

* Cannot be taken up until budget waivers are obtained from the Budget Committee which meets Tuesday to consider waiver requests.

THE WHITE HOUSE
WASHINGTON

June 27, 1977

Stu Eizenstat -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Hamilton Jordan

Re: Tax Reform

26

THE WHITE HOUSE

WASHINGTON

June 22, 1977

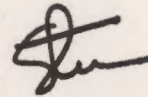
*Star -
See your p 5
J*

MEMORANDUM FOR:

THE PRESIDENT

FROM: THE PRESIDENT HAS SEEN.

STU EIZENSTAT
BOB GINSBURG



SUBJECT:

Tax Reform

Attached are two memoranda from Joe Pechman and one from us on tax reform and an article from Sunday's Washington Star carrying an interview with Secretary Blumenthal.

1. (a) In the first memo (Tab A), Pechman sets out his options for tax reform, including a reform package which he would recommend. You should know that Pechman believes that the current Treasury program falls short on grounds of progressivity, comprehensiveness, and simplicity for the average taxpayer -- Pechman just feels that it is not a very ambitious program.

(b) In his memo, Pechman suggests a very interesting approach for dealing with the itemized personal deductions. Instead of fighting separate battles on each deduction, Pechman recommends that we adopt an alternate, lower rate schedule for those who choose not to itemize. In effect, this would establish a floor for itemized deductions -- if the taxpayer's itemized deductions are less than the floor, it would be more profitable for him to just take the standard deduction and the lower rate schedule.

A similar (but perhaps politically more difficult) approach would be to directly establish a floor on itemized deductions, e.g., deductions could be itemized only to the extent that they exceeded 10% of income. Either approach would cause millions of taxpayers to give up itemizing (accelerating the trend we began this year by increasing the standard deduction), thereby achieving a dramatic step forward in simplification. These approaches are not perfect -- they will be criticized (as could the tax bill we just passed) as attacks on the real value of itemized deductions -- but we think they should be developed and carefully considered by Treasury.

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for Preservation Purposes**

2. In his second memo (Tab B), Pechman recommends that integration not be included in the tax reform package, arguing that it reduces progressivity, gives up too much revenue, and is not a very effective incentive for capital formation.
3. Our memorandum (Tab C) expresses our concern that the current Treasury program simply is not responsive to your campaign theme, and the perception of the average taxpayer, that the tax system is a disgrace. We point out some serious progressivity and distributional problems in the current program and conclude that Treasury does not appear to be producing a package which you can sell to the American people as a substantial improvement for the bulk of the low and middle income taxpayers. At the end of the memo, we request your guidance (to relay to Treasury) on these issues.
4. We hope you will instruct officials concerned with the tax reform effort and in the Administration generally to refrain (as you have) from speculation on the amount of net tax cuts (overall revenue loss) which our program will provide and the rate reductions we will propose. (Secretary Blumenthal was quoted over the weekend (Tab D) as saying the Administration wants to reduce top tax rates to 50%.) Continued discussion of this issue will divert the attention of the public and Congress from the difficult issue of tax reform to the easy one of tax cuts and rate reductions. It will dilute the effect of any net tax cuts we do announce and make our effort to get comprehensive reform harder.

Attachments:

- A -- Pechman memorandum on tax reform options
- B -- Pechman memorandum on integration
- C -- Our memorandum on the overall Treasury program
- D -- Washington Star article carrying interview with Secretary Blumenthal

June 16, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Joe Pechman

SUBJECT: Tax Reform Options

The major objectives of tax reform should be to improve the equity of the tax system (both vertical and horizontal) and make it simple to understand. Both objectives can be achieved by moving toward a comprehensive tax base which would eliminate the major preferences, curb business expense account abuses, allow only essential personal deductions, consolidate the four tax rate schedules, and reduce the marginal income tax rates substantially in all brackets. The rates should be adjusted to make the income tax more progressive than it is today. Business taxes should also be reduced, but the form and the amount of the reductions should be as consistent as possible with the equity and simplification objectives and should also maximize the stimulus to business capital formation.

Building Blocks of Tax Reform

The building blocks for the construction of any tax reform package are as follows:

1. Capital gains. The capital gains provisions are complicated, distort economic behavior, and favor the wealthy taxpayer. Equity, simplicity, and tax neutrality would all be served if capital gains were treated as other income. This change alone would permit a substantial reduction in the higher bracket individual income tax rates.

2. Capital gains transferred by gift or at death. Today, such gains are not taxed until the assets are sold by the recipients of the gifts or bequest. This is inequitable because it benefits families who can hold on to their assets for long periods, and penalizes those who — for business or other reasons — must sell their assets. It also encourages families to hold on to their wealth without turning it over for generations to avoid paying the capital gains tax. This lock-in

effect would be aggravated if capital gains were treated as other income. Lawyers complain that the present provisions raise difficult tracing problems. For all these reasons, capital gains should be taxed when assets are transferred to others as well as when they are sold.

3. Business tax preferences. While some progress has been made in recent years to eliminate tax preferences, a number of costly preferences have remained or have recently been introduced. Elimination of these preferences might be accompanied by a reduction in the corporation income tax rate. The major business tax preferences are: (a) percentage depletion for small producers of oil and gas and for all minerals producers; (b) deferral of tax through the Domestic International Sales Corporation (DISC); (c) deferral of tax on income of foreign corporations controlled by U.S. shareholders; and (d) tax shelters (which remain despite the revisions in the 1976 Act).

4. Business expense accounts. The abuse of business expense accounts should be terminated. Consideration should be given to putting per diem and per meal limits on business expenses; denial of deductions for club dues, admissions to sports and theatrical events, and other lavish entertainment expenses; and a limit on deductions for air travel to coach fare.

5. Tax-exempt interest. The correct method of eliminating this inequity would be to tax interest in all future municipal issues, and to use the revenue to increase aid to states and local governments. However, the opposition would be fierce. As an alternative, the states and local governments should be given the option to issue taxable issues, with the interest to be subsidized by the federal government to the extent of 40 percent.

6. Other exclusions for property income. Aside from tax-exempt interest, property income receives preferential treatment in two respects: first, the interest earned on life insurance savings of individuals is not taxed; and second, the first \$100 of dividends (\$200 on joint returns) is excluded from income. At one time, it was felt that it would be difficult to tax the interest on life insurance savings, but the necessary accounting can be done for the individual on a modern computer. The dividend exclusion is a vestige of the

1954 Act (which gave dividend relief to individuals in the wrong way) and should be repealed regardless of the decision on integration of the corporation and individual income taxes (see item 13 below).

7. Personal deductions. The personal deductions under the individual income tax are much too generous. In 1975, 72 percent of the itemized deductions were reported on returns with income above \$15,000. Moreover, the personal deductions are a major cause of the complexity of the individual income tax return and of the difficulties of taxpayers in preparing their returns. Equity and simplicity would be served if the deductions were pruned to a minimum.

The only essential deductions are for extraordinary medical expenses and casualty losses (for example, more than 10 percent of income), charitable contributions above a reasonable minimum (for example, 2 or 3 percent of income), and interest paid up to the amount of property income reported on the tax return. The deduction for income taxes might be continued to encourage the use of state income taxes. If it is deemed necessary to subsidize homeowners, a deduction for the first \$3,000 of property taxes and an additional \$2,500-\$5,000 of interest (over and above the amount of property income) might be allowed.

If these possibilities are politically unacceptable, one alternative is to place a floor of, say, 10 percent on itemized deductions, but this approach was rejected by Congress in 1964. Another alternative is to design a special rate schedule with lower rates for taxpayers who do not itemize and waive the use of any special tax credits. This would permit the adoption of a simple tax return for the large majority of taxpayers.

8. Treatment of the elderly. The elderly receive excessively generous treatment. Those over 65 years of age receive an extra \$750 exemption and an extra tax credit of \$35, pay no tax on their social security benefits, and receive a 15 percent tax credit on the first \$2,500 of other income (less any social security or other exempt pension income) for single persons and \$3,750 for a couple. The credit is phased out for those with earnings above \$7,500 if single, and \$10,000 if married. Despite recent simplifications, the credit

complicates the tax return unnecessarily. The case for any special treatment of the elderly is weak; if some preference is considered necessary, the additional per capita exemption should be sufficient.

9. Transfer payments. Social security benefits, unemployment compensation, workmen's compensation, welfare benefits, and other transfer payments are tax-exempt. It would be better to tax all transfers and to raise the personal exemptions so that those with inadequate total incomes are exempt from tax. Since the social security system is financed in part by an employee payroll tax which is not deductible in computing taxable income, only half of social security income might be included in the tax base. Unemployment and workmen's compensation should be fully taxable. Other transfer payments might continue to be excluded because they are received by persons who would not be taxable in any case.

10. Treatment of the family unit. The present four rate schedules are the result of piecemeal legislation to differentiate between taxpayers in different marital statuses and with different family responsibilities. The complications are of major proportions, yet the result pleases no one. Single persons still believe they are overtaxed; married couples with two earners also believe they are overtaxed, even though they benefit from income splitting. The only solution is to adopt one rate schedule for all taxpayers and make allowances for family size through the personal exemption or tax credit. To avoid the penalty on marriage, a generous deduction should be allowed for two-earner couples (say, 10 percent of the earnings of the spouse with the lower earnings up to \$2,500).

Adoption of one rate schedule would lower the tax liabilities of single persons as compared with married couples. This seems reasonable, because there is no logical reason why the tax of high-income individuals should be reduced substantially (as is done today) when he or she marries a person with little or no income.

11. Personal exemptions, tax credits, and the standard deduction. Allowances for the taxpayer and his family are now provided by a per capita exemption of \$750 and a per capita tax credit of \$35. In addition, a flat standard deduction of \$2,200 for single persons and \$3,200 for married couples is allowed. The objective

of these provisions is to avoid taxing people who are officially classified as poor. The exemption and the credit serve the same purpose — they make allowances for family size — but they two together complicate the tax return. If rates are altered, the same average effective tax rates can be achieved for all income classes with an exemption or a credit. The difference between the two is that the credit increases the tax value of an additional dependent in the lower brackets and reduces it in the upper brackets. Middle-income taxpayers who are near the breaking point receive little or no benefit from the credit. The standard deduction should be adjusted upward periodically to keep pace with inflation.

12. Withholding on interest and dividends. Even though information forms are required for virtually all interest and dividend payments, the amount of underreporting of these items (particularly interest) is substantial. When it last considered the matter thirteen years ago, the Senate preferred to enforce the tax on interest and dividends through information returns rather than withholding. But it is now clear that the IRS will never be given sufficient resources to match the tens of millions of information forms with tax returns. The only solution is to add interest and dividends to the withholding system.

13. Business taxes. Business tax reduction is inevitably regressive and, therefore, should be moderate. Any form of integration of the corporation and individual income taxes would be costly and reduce progressivity. If integration were in the form of individual relief, great pressure would be put on corporations to increase dividend payouts and national saving (and investment) might be reduced. Faster depreciation, additional investment tax credits, and a reduced corporate rate should be considered as an alternative to integration. If integration is proposed, the tax rates should be adjusted to offset its regressive effect.

14. Tax rate reduction. Comprehensive tax reform requires rate reduction to prevent inordinately large tax increases for those who lose preferences. In addition, lower tax rates would improve economic incentives and reduce the tendency to seek tax shelters. The goals should be to reduce the tax rates from the present range of 14-70 percent to 10-50 percent, but this goal can be reached only with a tough tax reform package. The rates should be designed to give

significant tax reductions to middle- as well as to low-income taxpayers.

Illustrative Tax Reform Packages

The building blocks can be combined in many ways for purposes of tax reform. To illustrate the possibilities, three individual income tax packages are summarized in Table 1. (Business taxes are dealt with in the accompanying memorandum.)

Package A — the most ambitious package — would eliminate the capital gains and the other major preferences, set tough rules for business expense account deductions, remove the tax advantages of the elderly, tax half of social security benefits and all unemployment and workmen's compensation payments, slash the personal deductions, substitute one tax rate schedule for the present four schedules, use only the personal exemption (rather than an exemption and a credit), and withhold on interest and dividends. This package would be a tax reformer's dream, but it would be unacceptable to important groups in society.

Package B is designed to simplify, as well as reform, the income tax. It is the same as Package A, with the exception that the tax advantages of the elderly remain untouched and a lower rate schedule is provided for taxpayers who waive all personal deductions and tax credits. (The schedule is calculated to convert itemized deductions up to about 10 percent of income to rate reductions.) Package B, which I prefer, would permit all but a relatively few taxpayers to fill out a simple tax return form without any deductions or credits.

Package C is similar to Package A, with the exception that fewer itemized deductions are eliminated, business expense accounts are dealt with more leniently, and there is no change in the treatment of transferred capital gains, the present four rate schedules, and transfer payments. In addition, a \$200 per capita credit is substituted for the present exemption and per capita credit. Package C is virtually identical to the Treasury proposals. Because it does not tax transferred capital gains, it cannot be as progressive as Package B.

Moreover, conversion of the exemption to a credit reduces the amount of the tax reduction that can be given to middle income taxpayers.

TABLE 1
Illustrative Individual Income
Tax Reform Packages

Tax items	Revenue effect (billions of dollars)	Pack- age A	Pack- age B	Pack- age C
<u>Capital Gains</u>				
Tax capital gains as ordinary income	4.4	x	x	x
Tax capital gains transferred by gift or at death	7.3	x	x	x
<u>Business Preferences</u>				
Eliminate percentage depletion	1.3	x	x	x
Eliminate deferral through DISCs	1.2	x	x	x
Eliminate deferral of income through foreign controlled corporations	0.6	x	x	x
Eliminate remaining tax shelters	1.0	x	x	x
<u>Business Expense Accounts</u>	1.0			
Adopt per meal and per diem limits	a	x	x	
Eliminate deductions for club dues, yachts, and so forth	a	x	x	x
Eliminate deductions for sports and theatrical events	a	x	x	x
Limit air travel deductions to coach fares	a	x	x	
<u>Other Preferences</u>				
Adopt subsidized taxable bond option	-0.5	x	x	x
Tax interest on life insurance savings	1.7	x	x	x
Eliminate dividend exclusion	0.4	x	x	x

-continued-

TABLE 1 (continued)

Tax items	Revenue effect (billions of dollars)	Pack- age A	Pack- age B	Pack- age C
<u>Treatment of the Elderly</u>				
Eliminate elderly tax credit	0.5	x		
Eliminate special exemption for the aged and the blind	1.2	x		
<u>Transfer Payments</u>				
Tax one-half of social security benefits	1.8	x		
Tax unemployment and workmen's compensation payments	3.3	x	x	
<u>Personal Deductions</u>				
Eliminate all deductions for taxes except state-local income taxes	6.5	x		
Eliminate deduction for state sales taxes	1.5			x
Eliminate deduction for gasoline taxes	0.7		x	x
Introduce 2 percent floor for char- itable contributions	2.0	x		
Allow deductions for medical expenses and casualty losses for amounts ex- ceeding 10 percent of income	1.3	x		x
Limit interest deductions to property income plus \$2,500	0.5	x		
Limit interest deductions to property income plus \$10,000	0.1			x
Special lower rate schedule for non- itemizers	b		x	

- continued -

TABLE 1 (continued)

Tax items	Revenue effect (billions of dollars)	Pack- age A	Pack- age B	Pack- age C
<u>Treatment of Family Unit</u>				
Substitute one rate schedule for the present four schedules	b	x	x	
Deduction of 10 percent (up to \$2,500) of earnings of spouse with lower earnings	-3.0	x	x	
Deduction of 10 percent (up to \$600) of earnings of spouse with lower earnings	-1.7			x
<u>Exemptions, Tax Credits, and Standard Deduction</u>				
Convert the exemption and credit to an exemption of \$1,000	-2.5	x	x	
Convert the exemption and credit to a credit of \$200	6.5			x
Standard deduction of \$3,500 for married couples and \$2,500 for single persons	-2.0	x	x	
<u>Withholding</u>				
Withhold on interest and dividends	1.5	x	x	x
<u>Individual Income Tax Rates</u>				
Schedule A rates	c	x		
Schedule B rates	c		x	
Schedule C rates	c			x

-continued-

TABLE 1 (concluded)

NOTE: All packages assume elimination of the minimum tax and the maximum tax on earned income.

a. Revenue effect is difficult to calculate. Total revenue gain from all the proposed revisions of business expense account deductions probably would raise more than \$1 billion a year.

b. Rate schedule would be calculated to convert itemized deductions up to 10 percent of income to rate reductions.

c. Rate schedule would be set to yield the desired revenue and progressivity objectives.

TA

B

June 16, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Joe Pechman

SUBJECT: Integration of the Corporation and Individual
Income Taxes

I believe it would be unwise to include integration in the forthcoming tax reform package. Any form of integration will be costly and reduce progressivity. Integration will make equities more attractive, but it may reduce private capital formation, rather than stimulate it.

There are two types of integration—"full" integration and "partial" integration—and both have significant weaknesses. Under full integration, corporate earnings are taxed to shareholders and they receive a full tax credit for the corporate tax (which becomes merely a withholding tax). Under partial integration, shareholders include the corporate tax paid on their dividends in their income and they receive a tax credit for the amount of corporate tax so included. In effect, full integration eliminates the entire corporate tax; partial integration removes the corporate tax only to the extent earnings are paid out.

Partial Integration

Partial integration would put great pressure on corporations to increase dividends if the top individual income tax rate were brought down to the level of the corporate rate. Given such rates, a corporate manager who retained any part of the earnings of a corporation would be denying his shareholders (except those subject to the top rate) a tax credit for the retentions. In effect, the shareholder would be making a forced loan to the corporation for the credits he was denied.

I would expect that the pressure to distribute would be so great that corporations would increase dividend payouts and request

their stockholders to reinvest their dividends automatically through dividend reinvestment plans. The earnings that would be available for corporate reinvestment could be no higher than it is at present; it would be lower to the extent that the shareholders did not reinvest their dividends. The corporation could turn to the capital markets for additional funds; but, even if stocks became more attractive, it is uncertain whether the corporations would or could replace their lost retained earnings from outside sources. In these circumstances, the vulnerability of some businesses to financial market conditions would be increased and corporate investment might be reduced.

Another reason why investment might be reduced is that the integration proposals envisage denying the corporate tax preferences in calculating the corporate tax credit allowed to shareholders. The most important of the preferences is the investment credit, which now amounts to almost \$10 billion a year. Denial of the preferences is considered necessary to reduce the revenue loss from integration and also to avoid the criticism that the shareholder would otherwise be given a credit for a tax he did not pay. A pass-through of the investment credit to shareholders would treat them on a par with sole proprietorships and partnerships, but the criticism will be hard to respond to. Under the circumstances, the effectiveness of the investment credit as a stimulus would be undermined.

Full Integration

Full integration has the merit that it would provide tax credits for shareholders whether dividends were paid or not. Thus, there would be no pressure on corporations to increase their payouts. (In fact, the availability of the credits might justify reducing payouts.) Internal funds for investment purposes are therefore likely to be unimpaired and might even be increased.

The difficulty is that a pass-through of the investment credit is even less likely under full than under partial integration. Again, the greater attractiveness of corporate equities might offset the incentive lost by the effective repeal of the investment tax credit, but there is considerable danger that it would not.

Another problem with full integration is that it will be difficult to implement. Shareholders will be required to keep track of the corporate earnings on which they were taxed and therefore automatically reinvested. In addition, an arbitrary rule would be required to allocate earnings to part-year shareholders. These problems are not insuperable, but they make full integration less attractive.

Finally, under both integration schemes, tax exempt organizations would not be given any credit for the corporation tax paid on their shareholders. This is considered necessary to avoid the loss in revenue, which would be of the order of \$6-12 billion (depending upon which method was used). The denial of the benefits of integration to pension funds will be regarded as a discrimination against labor; and educational and other nonprofit organizations will argue that this back door method of taxing them should be removed when the burden of the corporation income tax is being lifted from nontaxable individuals.

Conclusion

I conclude that it would be unwise to give up a significant amount of revenue for integration and to link it with the forthcoming tax reform package. The issues in integration are serious enough to warrant additional study before a presidential recommendation is made. Moreover, if the objective is to stimulate capital formation, it would be more effective to provide direct incentives through such devices as more acceleration of depreciation and an improved or enlarged investment credit. A cut in the corporate tax rate, say, from 48 to 45 percent, would also be in order if individual income tax rates are reduced. To keep the regressive effect of business tax changes to moderate proportions, the net tax cut to corporate enterprises—after making adjustments to offset the revenues gained from the removal of preferences—might be limited to \$2-3 billion.

TA

C

THE WHITE HOUSE

WASHINGTON

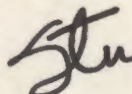
June 22, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT
BOB GINSBURG



SUBJECT:

Tax Reform

We are concerned that in considering a long list of pro and con arguments on various tax preferences, we not lose sight of the forest for the trees. One of the fundamental objectives you have established for tax reform -- and the one thing tax reform specialists and the general public care about more than any other -- is a fairer, more progressive tax system.

When you say that the tax system is a "disgrace", we understand you to mean that it is a disgrace because it is riddled with complex preferences, which are available to the wealthy and not the average taxpayer and which enable the wealthy to avoid paying their fair share -- with low and middle income taxpayers left to pick up the bill. We think that the main reason your campaign for tax reform has elicited such a strong response is that the man in the street agrees and identifies with this perception.

In that connection, we would like to make the following points about the Treasury program in its present form:

1. (a) The Treasury program will actually reduce the average tax paid by those in the \$50,000-\$100,000, \$100,000-\$200,000, and \$200,000 and over income classes. See Annexes A-1 and A-2 which provide a comparison between the effective tax rates (actual taxes paid as a percentage of income) under current law and those proposed under the Treasury program. Individuals in the \$50,000-\$100,000 income class will even get a larger percentage reduction than those in the \$15,000-\$20,000 income class.

(b) For both the expert and the average taxpayer, the bottom line for judging our tax reform will be who gets what -- how much relief do we deliver to low and middle income taxpayers and do we really try to make the wealthy pay their fair share. Yet under the current Treasury program the average \$200,000 taxpayer will receive a tax reduction at least 10 times greater than that given to the average \$15,000 taxpayer.

(c) If the effective tax rates of those in the \$50,000 and over income classes were merely left unchanged rather than being reduced, we would have an extra \$3.5 billion to either save or distribute to the lower income brackets.

2. Another way to look at the fairness or progressivity of our tax reform program is to examine its effect on who bears the tax burden, i.e., the percentage distribution of the total income tax burden borne by the different income classes. See Annex B. Under the Treasury program, taxpayers in the \$15,000-\$20,000 bracket (as well as the \$20,000-\$30,000 bracket) will actually bear a greater share of the overall tax burden than they do now. That kind of a result could lead to the devastating charge that our tax reform package strikes at the middle class. There may be difficulty in securing broad public support for a tax reform package which increases the percentage of the tax burden borne by the middle class.

3. The current Treasury program would cut marginal tax rates from 70 to 50 at the top and 14 to 13 at the bottom. As Annex C indicates, more of the benefits from these rate cuts will go to those making over \$50,000 than to the far greater number of taxpayers making less than \$20,000. The rate cuts currently proposed by Treasury would result in a revenue loss of \$22.9 billion, with the 1 million taxpayers in the over \$50,000 income class getting greater total reductions than the 74 million taxpayers (of which 52 million have positive tax liability) in the under \$20,000 class.

4. The need for greater progressivity in the Treasury program becomes further evident when we recognize that the income tax is the only real opportunity we have to achieve an overall progressive Federal tax structure -- payroll taxes weigh much more heavily on working people than they do on the wealthy. If Treasury's charts and tables reflected payroll as well as income taxes, the positive impact of the Treasury program on overall progressivity would be even smaller than it is now.

If the top marginal tax rate is to be cut to the neighborhood of 50, there remain several ways in which we can make the overall package more progressive than it is now:

- (a) The most significant would be to bear down more vigorously on the tax preferences which benefit corporations and the wealthy and distribute the revenue gained to low and middle income taxpayers by way of greater tax cuts. For example, full taxation of capital gains on property transferred by gift or bequest would raise \$7.3 billion in additional revenues. That item alone would substantially increase the progressivity of our reform package. Over \$11 billion in additional revenue could be raised through items such as: deferral of tax on foreign profits; "expense account" entertainment dining, and travel; the special depletion allowance for hard minerals; interest on consumer loans; a 2-3% floor under the deduction for charitable contributions; the interest buildup in insurance and annuity contracts; and unemployment insurance payments. In the case of itemized personal deductions, either Joe Pechman's proposal of a lower rate schedule for those who do not itemize and a higher rate schedule for those who do or a direct floor on itemized deductions would raise significant amounts of revenue.
- (b) Treasury's current proposal to eliminate double taxation (the dividend credit method) would cost almost \$10 billion in the first year and increasing amounts in subsequent years. Reducing the dividend credit from the 100% presently being proposed by Treasury to 50% would save almost \$5 billion in revenues which could be distributed to low and middle income taxpayers. Alternatively, many economists feel that other methods of

business tax reductions (investment tax credits, accelerated depreciation) would provide more stimulus to business investment and at a considerably reduced cost.

- (c) If you were to accept the present Treasury program as is without eliminating any further tax preferences, the only way you could achieve greater progressivity and more relief for low and middle income taxpayers would be to spend additional revenues to provide larger tax cuts for individuals in those brackets.
- (d) Even within the restrictions imposed by a top marginal rate in the neighborhood of 50, some modest increase in the progressivity of our package can be achieved (without any further revenue loss) by lowering the income level at which that rate would apply from the \$80,000 currently proposed by Treasury to, say, \$60,000 -- this would make some additional revenue available for those at lower income levels.

In order to make any headway against the lobbyists and special interests who will oppose practically every one of our specific reform proposals (with probably as much vigor if our proposals are timid as if they are bold), you will have to be able to personally sell the overall program to the American people. We think the key to your ability to do that will be what our program actually delivers -- in terms of tax reduction, progressivity, and distributional burden -- for the average taxpayer.

We remain concerned that Treasury is not producing a program which will enable you to meet this challenge. We think direction from you is necessary and recommend that you approve the guidance set out below.

Presidential Guidance

1. Ask Treasury for an alternative reform package which is more progressive than their current program. Specifically:

(a) Greater tax reductions should be provided for middle income taxpayers so that the relative share of the overall tax burden borne by the middle class is reduced, not increased as it is under the current Treasury program.

(b) The average taxes paid by individuals in the \$50,000 and over brackets should be maintained at about their present levels or reduced more slightly than they are under the current Treasury program -- with the saving in revenues distributed to low and middle income taxpayers.

2. Ask Treasury to attempt to identify more tax preferences that could be eliminated than are covered by their current program.
3. Ask Treasury for additional efforts to achieve simplicity for the average taxpayer. Careful consideration should be given to encouraging reduced use of itemized deductions either through a lower rate schedule for those who do not itemize or a reasonable floor on itemized deductions.

Would you like us to prepare a memorandum from you to Treasury on these points?

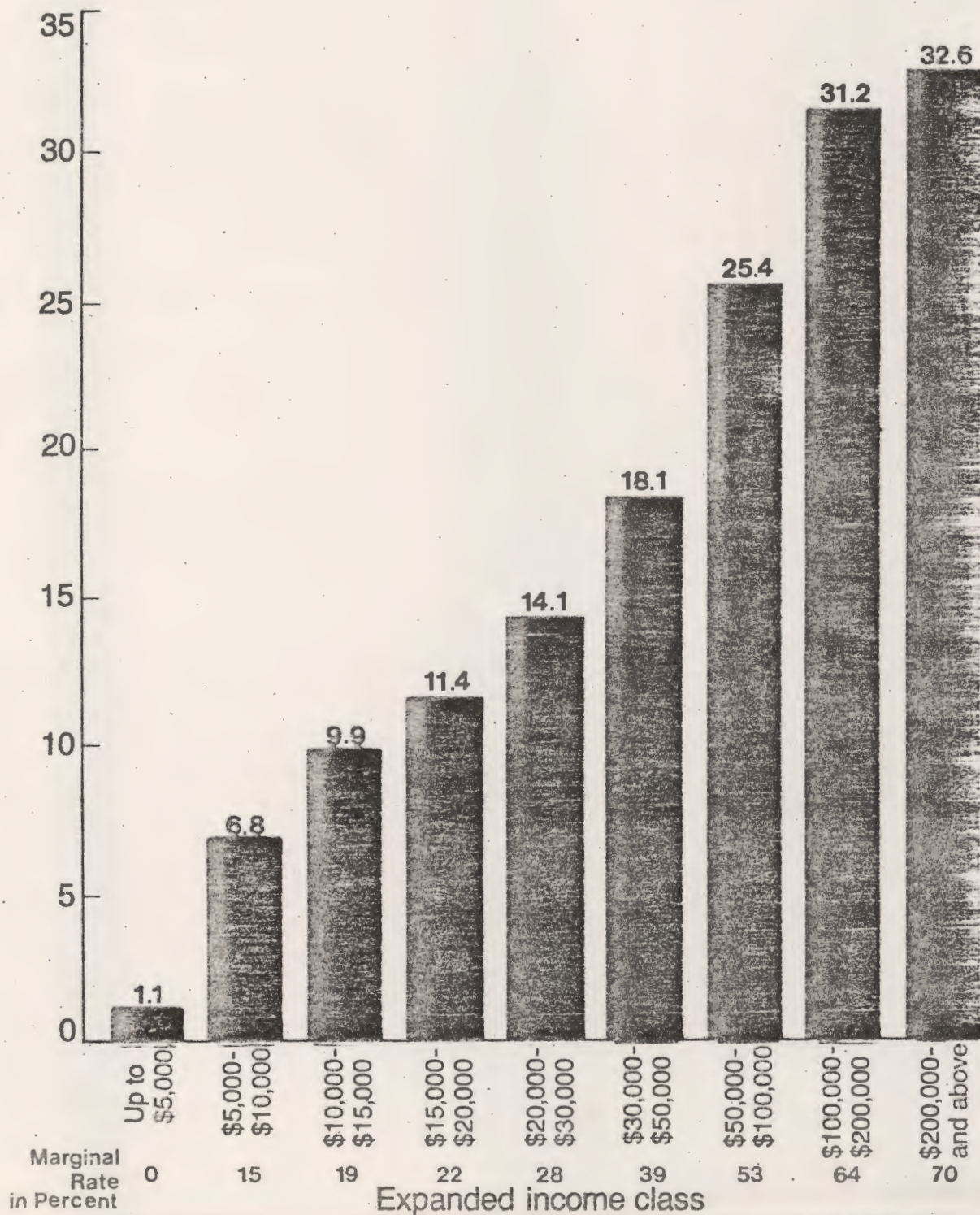
☒ Prepare memorandum

*Stu - I like Joe's
Package A or B - without
integration - We would
still have substantial
options for sweetening the
package -
Include caution re
public statements.
J.C.*

Chart 5

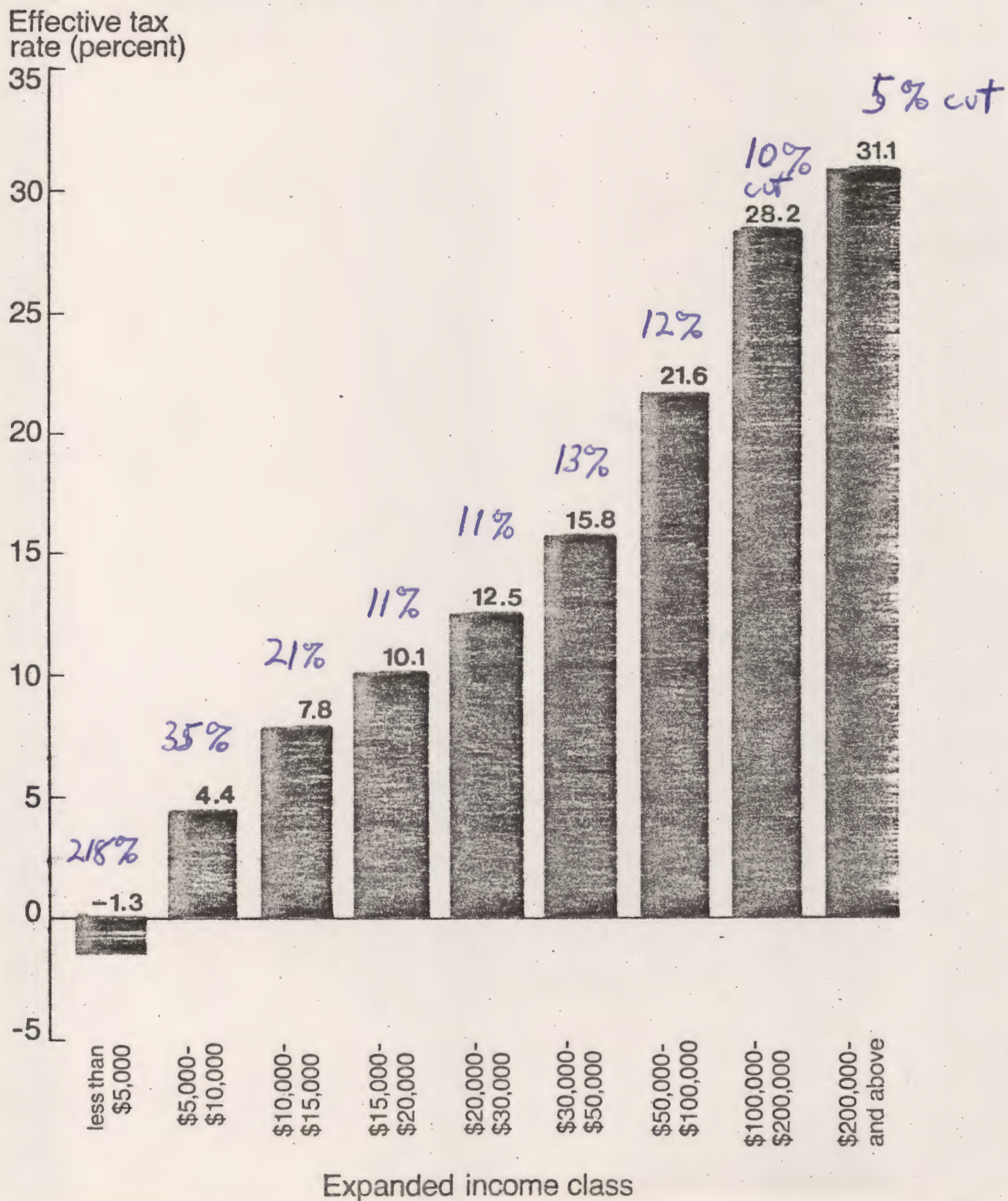
Effective Individual Income Tax Rates as a Percent of Expanded Income, 1976

Effective tax
rate (percent)



ANNEX A-2

Tax Reform Program: Effective Individual Tax Rates as a Percent of Expanded Income, 1976 Level of Income.



ANNEX B

Table 2

Percent Distribution of Tax Burden
by Expanded Income Class,
1976 Level of Income

Expanded Income Class	:	1976 Law	:	After All Proposals Except Business	:	After All Proposals
(000)						
Below 5		0.4		0.0		-0.6
5-10		7.2		5.7		5.4
10-15		14.0		13.2		13.1
15-20		[16.8]		16.9		[17.3]
20-30		[23.6]		24.4		[24.8]
30-50		15.8		16.4		16.5
50-100		11.8		12.0		12.1
100-200		5.8		6.3		6.3
200 and over		<u>4.6</u>		<u>5.4</u>		<u>5.3</u>
Total		100.0		100.0		100.0

Office of the Secretary of the Treasury
Office of Tax Analysis

May 17, 1977

ANNEX C

Table 2

Effects of Selected Tax Reform Proposals

Adjusted Gross Income	: Current Tax		: \$215 Personal Exemption Credit Reduced Tax						: Capital Gains		: Minimum Tax		: Itemized	
	: Law 1/		: Rates; Working Spouse Exclusion						: Changes		: Repeal		: Deductions Changes	
	: %	: Personal	: Reduced	: Working	: %	: %	: %	: %	: %	: %	: %	: %		
	:Amount	:Distri-	:Exemption	:Tax	:Spouse	:Total	:Distri-	:Amount	:Distri-	:Amount	:Distri-	:Amount	:Distri-	
	:bution	:bution	:Credit 2/	:Rates	:Exclusion:		:bution	:bution	:bution	:bution	:bution	:bution	:bution	
(000)	(000)													
Below 5	173	0.1%	- 241	- 60	*	- 301	1.5%	74	2.0%	- 9	5.4%	4	0.1 %	
5 - 10	8,321	6.1	- 592	- 825	- 42	- 1,459	7.1	160	4.3	*	*	96	2.6	
10 - 15	18,208	13.4	18	- 2,098	- 331	- 2,411	11.7	223	6.0	*	*	368	9.9	
15 - 20	23,114	17.0	767	- 3,188	- 492	- 2,913	14.2	237	6.3	- 6	3.6	642	17.3	
20 - 30	33,237	24.5	1,739	- 5,487	- 539	- 4,287	20.9	219	5.9	- 4	2.4	1,186	32.0	
30 - 50	22,383	16.5	1,414	- 4,717	- 221	- 3,524	17.1	602	16.1	- 14	8.3	786	21.2	
50 - 100	16,662	12.3	755	- 3,875	- 73	- 3,193	15.5	682	18.3	- 26	15.5	437	11.8	
100 - 200	7,967	5.9	167	- 1,474	- 16	- 1,323	6.4	595	15.9	- 37	22.0	144	3.9	
200 and over	5,765	4.2	40	- 1,178	- 3	- 1,141	5.6	941	25.2	- 70	41.7	37	1.0	
Total	135,831	100.0	4,066	-22,902	-1,717	-20,553	100.0	3,735	100.0	-168	100.0	3,703	100.0	

* Less than .05 percent or \$500 thousand.

Note: Details may not add to totals due to rounding.

1/ This is 1977 law, including the flat standard deduction of \$2,200 for singles and heads of households, and \$3,200 for joint returns, as contained in the conference report on the stimulation package.

**Andy Young
And Family**

—See Portfolio

**Country Chic
In Full Color**

—See Home Life

**Polanski's
Trials and . . .**

—See Calendar

**New Md. Whiz
Albert King**

—See Sports

**1st American
Male Saint**

—See Comment

**Billy Martin
Vs. Jackson**

—See Sports

Clearing Up

Clearer and less humid today, high in 80s. Partly cloudy tonight, low near 70. Chance of rain 10 percent through tonight. Details: E-5.

The Washington Star

**SUNDAY
EDITION**

125th Year. No. 170

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The Evening Star Newspaper Co.

S**** WASHINGTON, D. C., SUNDAY, JUNE 19, 1977

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Carter Hopes to Reduce Top Tax Rate to 50 Percent

By Lee M. Cohn
Washington Star Staff Writer

The Carter administration hopes to cut the top tax rate for individuals from 70 to 50 percent in a package with smaller rate reductions in lower income brackets, Treasury Secretary W. Michael Blumenthal says.

General rate reductions are needed at least to compensate for inflation, and the top tax rate should not exceed 50 percent because incentives are blunted when the government grabs more than half of a dollar of income, Blumenthal said in an interview.

While emphasizing that there have been no firm decisions on President Carter's recommendations, Blumenthal said the administration's "comprehensive" tax reform program may also include proposals to:

- Tax capital gains on the same basis as ordinary income, thus eliminating the present preferential treatment.
- Tighten limits on deductions of interest payments.
- Eliminate various other deductions and exclusions from taxable income.
- Encourage business investment by cutting corporate tax rates, increas-

Lower Brackets Would Get a Break, Too

ing the investment tax credit, enlarging depreciation deductions or reducing "double taxation" of corporate profits.

BLUMENTHAL SAID it is too soon to judge which options the President will choose to carry out his broad pledges to make the tax system simpler, fairer and more effective in promoting economic growth. He made it clear, however, that the administration wants to put a 50 per-

cent ceiling on individual income tax rates.

"It would be a very good thing if people knew they could keep at least half of what they make, no matter what the source," he said. "When the marginal tax rate gets up to 70 percent, people say, 'What's the point?' They start to invest in strange ways, in ways that are not socially useful (to avoid the high tax rates)."

Present law does limit the tax to 50 percent on "earned" income, defined

as wages, salaries, fees, commissions and other compensation for personal services. The marginal rate goes up to 70 percent, however, on such "unearned" income as dividends, interest and rents.

"I've never understood the reason for different treatment of income from savings and income from wages," Blumenthal said. "Why should I be punished because I've saved my marbles? It's almost a moral judgment that there's something indecent about saving and earning interest. Actually, saving is essential to the economy."

BESIDES LOWERING the top tax rate, the administration hopes to trim "a few percentage points" off the 14 percent rate on the bottom income bracket, Blumenthal said. A reduction in the rate on the bottom bracket would cut taxes for all taxpayers. Carter also could recommend reductions in intermediate brackets.

Tax cuts are necessary from time to time just to keep taxpayers even, Blumenthal said. Inflation lifts taxpayers into higher percentage rate brackets, even if purchasing power

See TAXES, A-11

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for Preservation Purposes**

TAXES

Continued From A-1

does not increase. Congress cuts taxes to compensate for this "bracket creep."

Rate cuts could be deeper without net losses of Treasury revenues if taxes were levied on all or almost all income. The administration is applying this principle by trying to "eliminate exclusions and exceptions that can't be justified," Blumenthal said.

Almost everybody likes this idea in the abstract, but there's trouble when particular deductions are targeted for extinction.

"You may start out with the idea that income from virtually all sources should be taxed, but at a much lower rate," Blumenthal said. "Then somebody will say, 'Are you actually suggesting that we tax black lung benefits?' Logic may dictate exactly that, but obviously it's just impossible."

IT WOULD BE premature to indicate which deductions and exclusions may be on the President's hit list, Blumenthal said. He acknowledged, however, that one possibility would be tightened limits on deductions of interest payments.

Present law limits deductions of interest on money borrowed for investment, but deductions are unlimited on "personal" interest, such as interest on consumer loans and home mortgages.

The "average" homeowner need not worry about losing his deduction for mortgage interest payments, Blumenthal said. But he said he was not ruling out the possibility of a dollar ceiling set at a high level to bar extraordinarily large personal-interest deductions — for a mansion and several vacation homes, for example.

Carter indicated during the campaign that he favored taxing capital gains on the same basis as ordinary income. Blumenthal said this still is under serious consideration, although the issue has not been settled.

TAXPAYERS NOW CAN exclude from taxable income half the capital gain from the sale of stocks, real estate and other

assets, so that the gains are taxed, in effect, at half the rate on ordinary income, such as salaries and interest. Capital gains in many cases also are subject to an extra minimum tax.

The effective tax on capital gains now averages more than 40 percent, Blumenthal estimated. If the ceiling on income tax rates were lowered to 50 percent, full taxation of capital gains would not be such a heavy extra burden, he said.

"That would help a great deal to simplify the tax system," he said. "The effort to shift income to capital gains causes a lot of the complications."

But the issue is complicated, he said. Often when an asset is sold all or a large part of the capital gain reflects inflation, not real gains, he said. To be fair, he said, it might be necessary to exclude a portion of capital gains from taxation if they were taxed as ordinary income.

CARTER IS WORRIED about inadequate business investment in expansion and modernization of plants and equipment. He is determined to provide additional tax incentives for such investment. Blumenthal outlined the main options, but said there are no indications which will be chosen by the President.

Probably the simplest, most straightforward incentive for investment would be a reduction of the corporate tax rate, which now is 20 percent on the first \$25,000 of profits, 22 percent on the next \$25,000 and 48 percent on profits over \$50,000.

Although tax cuts make investments potentially more profitable, the incentive is general, not sharply focused.

Carter may prefer a more direct incentive to encourage capital outlays, such as liberalization of the investment tax credit. This provision subsidizes investments by allowing companies to subtract from taxes due up to 10 percent of the cost of new machinery and equipment.

The incentive could be strengthened by increasing the credit above 10 percent and by removing certain limitations on its use.

THE CREDIT NOW does not help companies that owe no taxes because they earn no profits. Loss companies could be encouraged to invest if the Treasury paid them the amount of the credit in cash.

Companies deduct the cost of plants and equipment from taxable income over a period of years supposedly related to their "useful lives." This is called depreciation. There are many ways to permit faster depreciation and larger deductions, which would reduce taxes, increase profitability and leave more cash available for additional investment.

Another proposal is to allow depreciation deductions up to the estimated replacement cost of plants and equipment. By allowing for inflation, this system would permit deductions to exceed actual outlays by the companies.

The administration also is considering several methods of reducing or eliminating so-called double taxation of corporate profits, as a way to encourage investment. Profits now are taxed as earned by the corporation, and again when received by stockholders as dividends.

BUSINESS AND financial leaders are widely split on proposals for dealing with double taxation, Blumenthal said. Some remedies would sharply reduce taxation of corporations and stockholders, but other versions could raise taxes in many cases.

Tax increases and reductions in the reform package are almost certain to produce a net tax cut, and so a net revenue loss to the Treasury on the usual basis of computation. This could create problems for fulfillment of Carter's pledge to balance the budget by fiscal 1981. Blumenthal refused to disclose what revenue target the President has set for the package.

Revenue estimates in tax bills can be misleading, Blumenthal said. If taxes are cut in a way that boosts the economy, he said, taxable incomes and profits may rise enough to increase total revenues. The administration will try to estimate these "economic feedback" effects, he said.

CARTER HAS HELD two long meetings on tax reform so far with Blumenthal, Laurence N. Woodworth, assistant secretary of the Treasury for tax policy, and other key advisers. A third meeting, at which the options may be narrowed, probably will be held around the end of June.

THE WHITE HOUSE

WASHINGTON

June 22, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM: THE PRESIDENT HAS SEEN.

STU EIZENSTAT
BOB GINSBURG

SUBJECT:

Tax Reform

Attached are two memoranda from Joe Pechman and one from us on tax reform and an article from Sunday's Washington Star carrying an interview with Secretary Blumenthal.

1. (a) In the first memo (Tab A), Pechman sets out his options for tax reform, including a reform package which he would recommend. You should know that Pechman believes that the current Treasury program falls short on grounds of progressivity, comprehensiveness, and simplicity for the average taxpayer -- Pechman just feels that it is not a very ambitious program.
- (b) In his memo, Pechman suggests a very interesting approach for dealing with the itemized personal deductions. Instead of fighting separate battles on each deduction, Pechman recommends that we adopt an alternate, lower rate schedule for those who choose not to itemize. In effect, this would establish a floor for itemized deductions -- if the taxpayer's itemized deductions are less than the floor, it would be more profitable for him to just take the standard deduction and the lower rate schedule.

A similar (but perhaps politically more difficult) approach would be to directly establish a floor on itemized deductions, e.g., deductions could be itemized only to the extent that they exceeded 10% of income. Either approach would cause millions of taxpayers to give up itemizing (accelerating the trend we began this year by increasing the standard deduction), thereby achieving a dramatic step forward in simplification. These approaches are not perfect -- they will be criticized (as could the tax bill we just passed) as attacks on the real value of itemized deductions -- but we think they should be developed and carefully considered by Treasury.

2. In his second memo (Tab B), Pechman recommends that integration not be included in the tax reform package, arguing that it reduces progressivity, gives up too much revenue, and is not a very effective incentive for capital formation.
3. Our memorandum (Tab C) expresses our concern that the current Treasury program simply is not responsive to your campaign theme, and the perception of the average taxpayer, that the tax system is a disgrace. We point out some serious progressivity and distributional problems in the current program and conclude that Treasury does not appear to be producing a package which you can sell to the American people as a substantial improvement for the bulk of the low and middle income taxpayers. At the end of the memo, we request your guidance (to relay to Treasury) on these issues.
4. We hope you will instruct officials concerned with the tax reform effort and in the Administration generally to refrain (as you have) from speculation on the amount of net tax cuts (overall revenue loss) which our program will provide and the rate reductions we will propose. (Secretary Blumenthal was quoted over the weekend (Tab D) as saying the Administration wants to reduce top tax rates to 50%.) Continued discussion of this issue will divert the attention of the public and Congress from the difficult issue of tax reform to the easy one of tax cuts and rate reductions. It will dilute the effect of any net tax cuts we do announce and make our effort to get comprehensive reform harder.

Attachments:

- A -- Pechman memorandum on tax reform options
- B -- Pechman memorandum on integration
- C -- Our memorandum on the overall Treasury program
- D -- Washington Star article carrying interview with Secretary Blumenthal

June 16, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Joe Pechman

SUBJECT: Tax Reform Options

The major objectives of tax reform should be to improve the equity of the tax system (both vertical and horizontal) and make it simple to understand. Both objectives can be achieved by moving toward a comprehensive tax base which would eliminate the major preferences, curb business expense account abuses, allow only essential personal deductions, consolidate the four tax rate schedules, and reduce the marginal income tax rates substantially in all brackets. The rates should be adjusted to make the income tax more progressive than it is today. Business taxes should also be reduced, but the form and the amount of the reductions should be as consistent as possible with the equity and simplification objectives and should also maximize the stimulus to business capital formation.

Building Blocks of Tax Reform

The building blocks for the construction of any tax reform package are as follows:

1. Capital gains. The capital gains provisions are complicated, distort economic behavior, and favor the wealthy taxpayer. Equity, simplicity, and tax neutrality would all be served if capital gains were treated as other income. This change alone would permit a substantial reduction in the higher bracket individual income tax rates.

2. Capital gains transferred by gift or at death. Today, such gains are not taxed until the assets are sold by the recipients of the gifts or bequest. This is inequitable because it benefits families who can hold on to their assets for long periods, and penalizes those who — for business or other reasons — must sell their assets. It also encourages families to hold on to their wealth without turning it over for generations to avoid paying the capital gains tax. This lock-in

effect would be aggravated if capital gains were treated as other income. Lawyers complain that the present provisions raise difficult tracing problems. For all these reasons, capital gains should be taxed when assets are transferred to others as well as when they are sold.

3. Business tax preferences. While some progress has been made in recent years to eliminate tax preferences, a number of costly preferences have remained or have recently been introduced. Elimination of these preferences might be accompanied by a reduction in the corporation income tax rate. The major business tax preferences are: (a) percentage depletion for small producers of oil and gas and for all minerals producers; (b) deferral of tax through the Domestic International Sales Corporation (DISC); (c) deferral of tax on income of foreign corporations controlled by U.S. shareholders; and (d) tax shelters (which remain despite the revisions in the 1976 Act).

4. Business expense accounts. The abuse of business expense accounts should be terminated. Consideration should be given to putting per diem and per meal limits on business expenses; denial of deductions for club dues, admissions to sports and theatrical events, and other lavish entertainment expenses; and a limit on deductions for air travel to coach fare.

5. Tax-exempt interest. The correct method of eliminating this inequity would be to tax interest in all future municipal issues, and to use the revenue to increase aid to states and local governments. However, the opposition would be fierce. As an alternative, the states and local governments should be given the option to issue taxable issues, with the interest to be subsidized by the federal government to the extent of 40 percent.

6. Other exclusions for property income. Aside from tax-exempt interest, property income receives preferential treatment in two respects: first, the interest earned on life insurance savings of individuals is not taxed; and second, the first \$100 of dividends (\$200 on joint returns) is excluded from income. At one time, it was felt that it would be difficult to tax the interest on life insurance savings, but the necessary accounting can be done for the individual on a modern computer. The dividend exclusion is a vestige of the

1954 Act (which gave dividend relief to individuals in the wrong way) and should be repealed regardless of the decision on integration of the corporation and individual income taxes (see item 13 below).

7. Personal deductions. The personal deductions under the individual income tax are much too generous. In 1975, 72 percent of the itemized deductions were reported on returns with income above \$15,000. Moreover, the personal deductions are a major cause of the complexity of the individual income tax return and of the difficulties of taxpayers in preparing their returns. Equity and simplicity would be served if the deductions were pruned to a minimum.

The only essential deductions are for extraordinary medical expenses and casualty losses (for example, more than 10 percent of income), charitable contributions above a reasonable minimum (for example, 2 or 3 percent of income), and interest paid up to the amount of property income reported on the tax return. The deduction for income taxes might be continued to encourage the use of state income taxes. If it is deemed necessary to subsidize homeowners, a deduction for the first \$3,000 of property taxes and an additional \$2,500-\$5,000 of interest (over and above the amount of property income) might be allowed.

If these possibilities are politically unacceptable, one alternative is to place a floor of, say, 10 percent on itemized deductions, but this approach was rejected by Congress in 1964. Another alternative is to design a special rate schedule with lower rates for taxpayers who do not itemize and waive the use of any special tax credits. This would permit the adoption of a simple tax return for the large majority of taxpayers.

8. Treatment of the elderly. The elderly receive excessively generous treatment. Those over 65 years of age receive an extra \$750 exemption and an extra tax credit of \$35, pay no tax on their social security benefits, and receive a 15 percent tax credit on the first \$2,500 of other income (less any social security or other exempt pension income) for single persons and \$3,750 for a couple. The credit is phased out for those with earnings above \$7,500 if single, and \$10,000 if married. Despite recent simplifications, the credit

complicates the tax return unnecessarily. The case for any special treatment of the elderly is weak; if some preference is considered necessary, the additional per capita exemption should be sufficient.

9. Transfer payments. Social security benefits, unemployment compensation, workmen's compensation, welfare benefits, and other transfer payments are tax-exempt. It would be better to tax all transfers and to raise the personal exemptions so that those with inadequate total incomes are exempt from tax. Since the social security system is financed in part by an employee payroll tax which is not deductible in computing taxable income, only half of social security income might be included in the tax base. Unemployment and workmen's compensation should be fully taxable. Other transfer payments might continue to be excluded because they are received by persons who would not be taxable in any case.

10. Treatment of the family unit. The present four rate schedules are the result of piecemeal legislation to differentiate between taxpayers in different marital statuses and with different family responsibilities. The complications are of major proportions, yet the result pleases no one. Single persons still believe they are overtaxed; married couples with two earners also believe they are overtaxed, even though they benefit from income splitting. The only solution is to adopt one rate schedule for all taxpayers and make allowances for family size through the personal exemption or tax credit. To avoid the penalty on marriage, a generous deduction should be allowed for two-earner couples (say, 10 percent of the earnings of the spouse with the lower earnings up to \$2,500).

Adoption of one rate schedule would lower the tax liabilities of single persons as compared with married couples. This seems reasonable, because there is no logical reason why the tax of high-income individuals should be reduced substantially (as is done today) when he or she marries a person with little or no income.

11. Personal exemptions, tax credits, and the standard deduction. Allowances for the taxpayer and his family are now provided by a per capita exemption of \$750 and a per capita tax credit of \$35. In addition, a flat standard deduction of \$2,200 for single persons and \$3,200 for married couples is allowed. The objective

of these provisions is to avoid taxing people who are officially classified as poor. The exemption and the credit serve the same purpose — they make allowances for family size — but the two together complicate the tax return. If rates are altered, the same average effective tax rates can be achieved for all income classes with an exemption or a credit. The difference between the two is that the credit increases the tax value of an additional dependent in the lower brackets and reduces it in the upper brackets. Middle-income taxpayers who are near the breaking point receive little or no benefit from the credit. The standard deduction should be adjusted upward periodically to keep pace with inflation.

12. Withholding on interest and dividends. Even though information forms are required for virtually all interest and dividend payments, the amount of underreporting of these items (particularly interest) is substantial. When it last considered the matter thirteen years ago, the Senate preferred to enforce the tax on interest and dividends through information returns rather than withholding. But it is now clear that the IRS will never be given sufficient resources to match the tens of millions of information forms with tax returns. The only solution is to add interest and dividends to the withholding system.

13. Business taxes. Business tax reduction is inevitably regressive and, therefore, should be moderate. Any form of integration of the corporation and individual income taxes would be costly and reduce progressivity. If integration were in the form of individual relief, great pressure would be put on corporations to increase dividend payouts and national saving (and investment) might be reduced. Faster depreciation, additional investment tax credits, and a reduced corporate rate should be considered as an alternative to integration. If integration is proposed, the tax rates should be adjusted to offset its regressive effect.

14. Tax rate reduction. Comprehensive tax reform requires rate reduction to prevent inordinately large tax increases for those who lose preferences. In addition, lower tax rates would improve economic incentives and reduce the tendency to seek tax shelters. The goals should be to reduce the tax rates from the present range of 14-70 percent to 10-50 percent, but this goal can be reached only with a tough tax reform package. The rates should be designed to give

Moreover, conversion of the exemption to a credit reduces the amount of the tax reduction that can be given to middle income taxpayers.

TABLE 1
Illustrative Individual Income
Tax Reform Packages

Tax items	Revenue effect (billions of dollars)	Pack- age A	Pack- age B	Pack- age C
<u>Capital Gains</u>				
Tax capital gains as ordinary income	4.4	x	x	x
Tax capital gains transferred by gift or at death	7.3	x	x	x
<u>Business Preferences</u>				
Eliminate percentage depletion	1.3	x	x	x
Eliminate deferral through DISCs	1.2	x	x	x
Eliminate deferral of income through foreign controlled corporations	0.6	x	x	x
Eliminate remaining tax shelters	1.0	x	x	x
<u>Business Expense Accounts</u>	1.0			
Adopt per meal and per diem limits	a	x	x	
Eliminate deductions for club dues, yachts, and so forth	a	x	x	x
Eliminate deductions for sports and theatrical events	a	x	x	x
Limit air travel deductions to coach fares	a	x	x	
<u>Other Preferences</u>				
Adopt subsidized taxable bond option	-0.5	x	x	x
Tax interest on life insurance savings	1.7	x	x	x
Eliminate dividend exclusion	0.4	x	x	x

-continued-

TABLE 1 (continued)

Tax items	Revenue effect (billions of dollars)	Pack- age A	Pack- age B	Pack- age C
<u>Treatment of the Elderly</u>				
Eliminate elderly tax credit	0.5	x		
Eliminate special exemption for the aged and the blind	1.2	x		
<u>Transfer Payments</u>				
Tax one-half of social security benefits	1.8	x		
Tax unemployment and workmen's compensation payments	3.3	x	x	
<u>Personal Deductions</u>				
Eliminate all deductions for taxes except state-local income taxes	6.5	x		
Eliminate deduction for state sales taxes	1.5			x
Eliminate deduction for gasoline taxes	0.7		x	x
Introduce 2 percent floor for char- itable contributions	2.0	x		
Allow deductions for medical expenses and casualty losses for amounts ex- ceeding 10 percent of income	1.3	x		x
Limit interest deductions to property income plus \$2,500	0.5	x		
Limit interest deductions to property income plus \$10,000	0.1			x
Special lower rate schedule for non- itemizers	b		x	

-continued-

TABLE 1 (continued)

Tax items	Revenue effect (billions of dollars)	Pack- age A	Pack- age B	Pack- age C
<u>Treatment of Family Unit</u>				
Substitute one rate schedule for the present four schedules	b	x	x	
Deduction of 10 percent (up to \$2,500) of earnings of spouse with lower earnings	-3.0	x	x	
Deduction of 10 percent (up to \$600) of earnings of spouse with lower earnings	-1.7			x
<u>Exemptions, Tax Credits, and Standard Deduction</u>				
Convert the exemption and credit to an exemption of \$1,000	-2.5	x	x	
Convert the exemption and credit to a credit of \$200	6.5			x
Standard deduction of \$3,500 for married couples and \$2,500 for single persons	-2.0	x	x	
<u>Withholding</u>				
Withhold on interest and dividends	1.5	x	x	x
<u>Individual Income Tax Rates</u>				
Schedule A rates	c	x		
Schedule B rates	c		x	
Schedule C rates	c			x

-continued-

TABLE 1 (concluded)

NOTE: All packages assume elimination of the minimum tax and the maximum tax on earned income.

a. Revenue effect is difficult to calculate. Total revenue gain from all the proposed revisions of business expense account deductions probably would raise more than \$1 billion a year.

b. Rate schedule would be calculated to convert itemized deductions up to 10 percent of income to rate reductions.

c. Rate schedule would be set to yield the desired revenue and progressivity objectives.

THE WHITE HOUSE

WASHINGTON

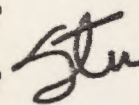
June 22, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT
BOB GINSBURG



SUBJECT:

Tax Reform

We are concerned that in considering a long list of pro and con arguments on various tax preferences, we not lose sight of the forest for the trees. One of the fundamental objectives you have established for tax reform -- and the one thing tax reform specialists and the general public care about more than any other -- is a fairer, more progressive tax system.

When you say that the tax system is a "disgrace", we understand you to mean that it is a disgrace because it is riddled with complex preferences, which are available to the wealthy and not the average taxpayer and which enable the wealthy to avoid paying their fair share -- with low and middle income taxpayers left to pick up the bill. We think that the main reason your campaign for tax reform has elicited such a strong response is that the man in the street agrees and identifies with this perception.

In that connection, we would like to make the following points about the Treasury program in its present form:

1. (a) The Treasury program will actually reduce the average tax paid by those in the \$50,000-\$100,000, \$100,000-\$200,000, and \$200,000 and over income classes. See Annexes A-1 and A-2 which provide a comparison between the effective tax rates (actual taxes paid as a percentage of income) under current law and those proposed under the Treasury program. Individuals in the \$50,000-\$100,000 income class will even get a larger percentage reduction than those in the \$15,000-\$20,000 income class.

(b) For both the expert and the average taxpayer, the bottom line for judging our tax reform will be who gets what -- how much relief do we deliver to low and middle income taxpayers and do we really try to make the wealthy pay their fair share. Yet under the current Treasury program the average \$200,000 taxpayer will receive a tax reduction at least 10 times greater than that given to the average \$15,000 taxpayer.

(c) If the effective tax rates of those in the \$50,000 and over income classes were merely left unchanged rather than being reduced, we would have an extra \$3.5 billion to either save or distribute to the lower income brackets.

2. Another way to look at the fairness or progressivity of our tax reform program is to examine its effect on who bears the tax burden, i.e., the percentage distribution of the total income tax burden borne by the different income classes. See Annex B. Under the Treasury program, taxpayers in the \$15,000-\$20,000 bracket (as well as the \$20,000-\$30,000 bracket) will actually bear a greater share of the overall tax burden than they do now. That kind of a result could lead to the devastating charge that our tax reform package strikes at the middle class. There may be difficulty in securing broad public support for a tax reform package which increases the percentage of the tax burden borne by the middle class.
3. The current Treasury program would cut marginal tax rates from 70 to 50 at the top and 14 to 13 at the bottom. As Annex C indicates, more of the benefits from these rate cuts will go to those making over \$50,000 than to the far greater number of taxpayers making less than \$20,000. The rate cuts currently proposed by Treasury would result in a revenue loss of \$22.9 billion, with the 1 million taxpayers in the over \$50,000 income class getting greater total reductions than the 74 million taxpayers (of which 52 million have positive tax liability) in the under \$20,000 class.

4. The need for greater progressivity in the Treasury program becomes further evident when we recognize that the income tax is the only real opportunity we have to achieve an overall progressive Federal tax structure -- payroll taxes weigh much more heavily on working people than they do on the wealthy. If Treasury's charts and tables reflected payroll as well as income taxes, the positive impact of the Treasury program on overall progressivity would be even smaller than it is now.

If the top marginal tax rate is to be cut to the neighborhood of 50, there remain several ways in which we can make the overall package more progressive than it is now:

- (a) The most significant would be to bear down more vigorously on the tax preferences which benefit corporations and the wealthy and distribute the revenue gained to low and middle income taxpayers by way of greater tax cuts. For example, full taxation of capital gains on property transferred by gift or bequest would raise \$7.3 billion in additional revenues. That item alone would substantially increase the progressivity of our reform package. Over \$11 billion in additional revenue could be raised through items such as: deferral of tax on foreign profits; "expense account" entertainment dining, and travel; the special depletion allowance for hard minerals; interest on consumer loans; a 2-3% floor under the deduction for charitable contributions; the interest buildup in insurance and annuity contracts; and unemployment insurance payments. In the case of itemized personal deductions, either Joe Pechman's proposal of a lower rate schedule for those who do not itemize and a higher rate schedule for those who do or a direct floor on itemized deductions would raise significant amounts of revenue.
- (b) Treasury's current proposal to eliminate double taxation (the dividend credit method) would cost almost \$10 billion in the first year and increasing amounts in subsequent years. Reducing the dividend credit from the 100% presently being proposed by Treasury to 50% would save almost \$5 billion in revenues which could be distributed to low and middle income taxpayers. Alternatively, many economists feel that other methods of

business tax reductions (investment tax credits, accelerated depreciation) would provide more stimulus to business investment and at a considerably reduced cost.

- (c) If you were to accept the present Treasury program as is without eliminating any further tax preferences, the only way you could achieve greater progressivity and more relief for low and middle income taxpayers would be to spend additional revenues to provide larger tax cuts for individuals in those brackets.
- (d) Even within the restrictions imposed by a top marginal rate in the neighborhood of 50, some modest increase in the progressivity of our package can be achieved (without any further revenue loss) by lowering the income level at which that rate would apply from the \$80,000 currently proposed by Treasury to, say, \$60,000 -- this would make some additional revenue available for those at lower income levels.

In order to make any headway against the lobbyists and special interests who will oppose practically every one of our specific reform proposals (with probably as much vigor if our proposals are timid as if they are bold), you will have to be able to personally sell the overall program to the American people. We think the key to your ability to do that will be what our program actually delivers -- in terms of tax reduction, progressivity, and distributional burden -- for the average taxpayer.

We remain concerned that Treasury is not producing a program which will enable you to meet this challenge. We think direction from you is necessary and recommend that you approve the guidance set out below.

Presidential Guidance

1. Ask Treasury for an alternative reform package which is more progressive than their current program. Specifically:

(a) Greater tax reductions should be provided for middle income taxpayers so that the relative share of the overall tax burden borne by the middle class is reduced, not increased as it is under the current Treasury program.

(b) The average taxes paid by individuals in the \$50,000 and over brackets should be maintained at about their present levels or reduced more slightly than they are under the current Treasury program -- with the saving in revenues distributed to low and middle income taxpayers.

2. Ask Treasury to attempt to identify more tax preferences that could be eliminated than are covered by their current program.
3. Ask Treasury for additional efforts to achieve simplicity for the average taxpayer. Careful consideration should be given to encouraging reduced use of itemized deductions either through a lower rate schedule for those who do not itemize or a reasonable floor on itemized deductions.

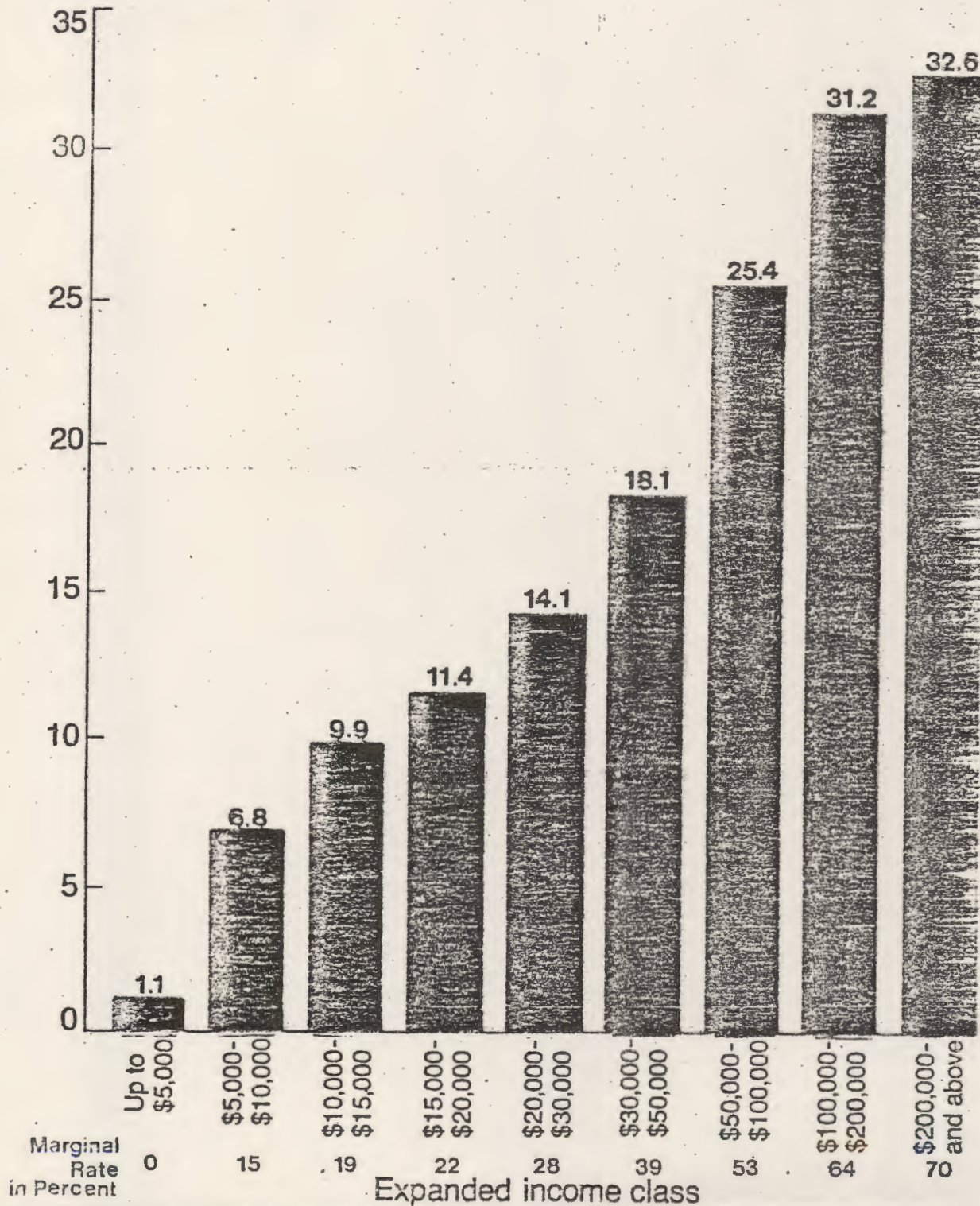
Would you like us to prepare a memorandum from you to Treasury on these points?

☒ Prepare memorandum

*Stu - I like Joe's
Package A or B - without
integration = We would
still have substantial
options for sweetening the
package -
Include caution re
public statements.
J.C.*

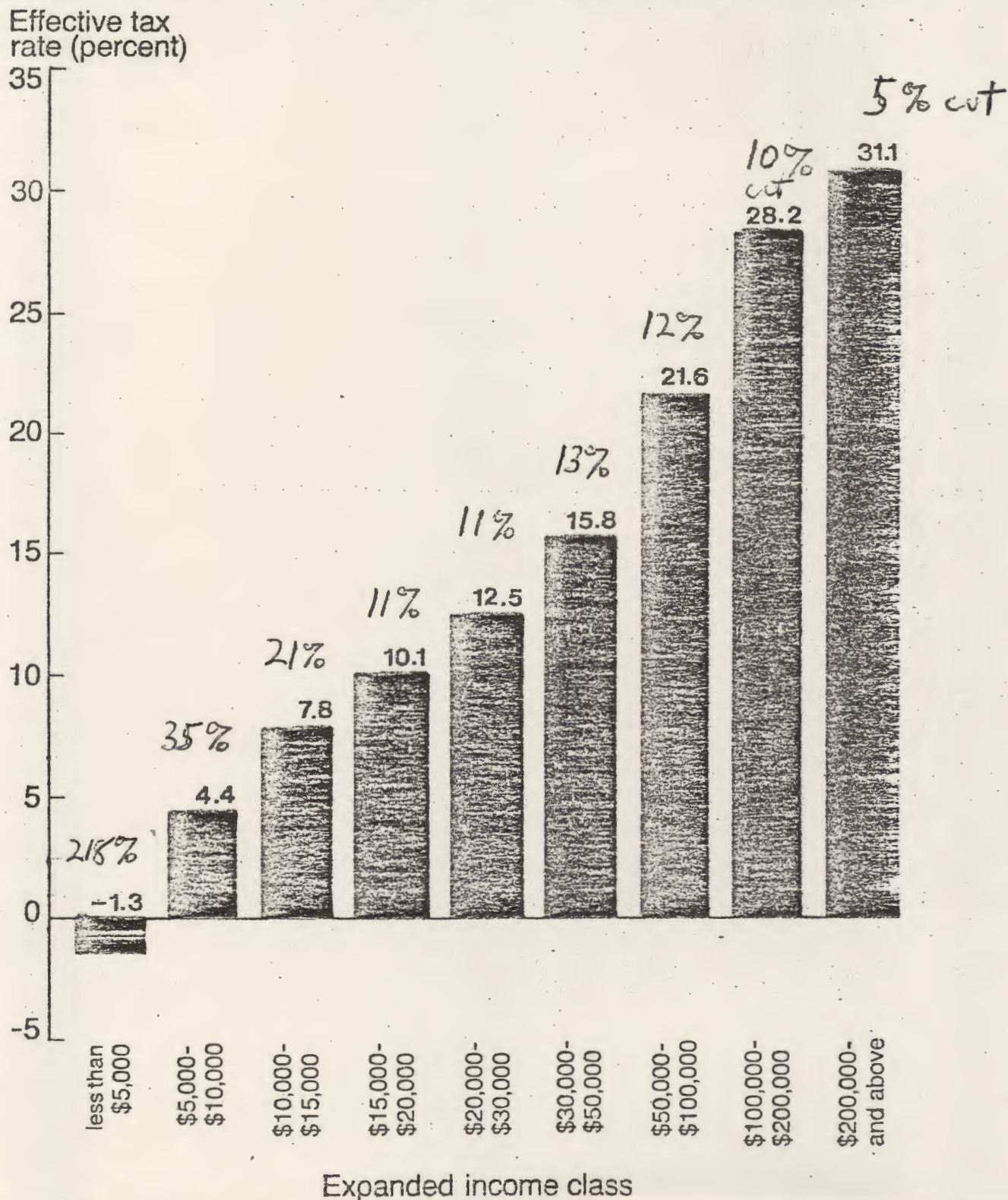
Effective Individual Income Tax Rates as a Percent of Expanded Income, 1976

Effective tax rate (percent)



Tax Reform Program:

Effective Individual Tax Rates as a Percent of Expanded Income, 1976 Level of Income.



ANNEX B

Percent Distribution of Tax Burden by Expanded Income Class, 1976 Level of Income

Expanded Income Class	: 1976 Law	: After All Proposals Except Business	: After All Proposals
(000)			
Below 5	0.4	0.0	-0.6
5-10	7.2	5.7	5.4
10-15	14.0	13.2	13.1
15-20	[16.8]	16.9	[17.3]
20-30	[23.6]	24.4	[24.8]
30-50	15.8	16.4	16.5
50-100	11.8	12.0	12.1
100-200	5.8	6.3	6.3
200 and over	<u>4.6</u>	<u>5.4</u>	<u>5.3</u>
Total	100.0	100.0	100.0

Office of the Secretary of the Treasury
Office of Tax Analysis

May 17, 1977

ANNEX C

Effects of Selected Tax Reform Proposals

Adjusted Gross Income	Current Tax		\$215 Personal Exemption Credit Reduced Tax					Capital Gains		Minimum Tax		Itemized	
	Law 1/		Rates; Working Spouse Exclusion					Changes		Repeal		Deductions Changes	
	Amount	Distri- bution	Personal Exemption Credit 2/	Reduced Tax Rates	Working Spouse Exclusion	Total	Distri- bution	Amount	Distri- bution	Amount	Distri- bution	Amount	Distri- bution
(000)	(000)												
Below 5	173	0.1%	- 241	- 60	*	- 301	1.5%	74	2.0%	- 9	5.4%	4	0.1 %
5 - 10	8,321	6.1	- 592	- 825	- 42	- 1,459	7.1	160	4.3	*	*	96	2.6
10 - 15	18,208	13.4	18	- 2,098	- 331	- 2,411	11.7	223	6.0	*	*	368	9.9
15 - 20	23,114	17.0	767	- 3,188	- 492	- 2,913	14.2	237	6.3	- 6	3.6	642	17.3
20 - 30	33,237	24.5	1,739	- 5,487	- 539	- 4,287	20.9	219	5.9	- 4	2.4	1,186	32.0
30 - 50	22,383	16.5	1,414	- 4,717	- 221	- 3,524	17.1	602	16.1	- 14	8.3	786	21.2
50 - 100	16,662	12.3	755	- 3,875	- 73	- 3,193	15.5	682	18.3	- 26	15.5	437	11.8
100 - 200	7,967	5.9	167	- 1,474	- 16	- 1,323	6.4	595	15.9	- 37	22.0	144	3.9
200 and over	5,765	4.2	40	- 1,178	- 3	- 1,141	5.6	941	25.2	- 70	41.7	37	1.0
Total	135,831	100.0	4,066	-22,902	-1,717	-20,553	100.0	3,735	100.0	-168	100.0	3,703	100.0

* Less than .05 percent or \$500 thousand.

Note: Details may not add to totals due to rounding.

1/ This is 1977 law, including the flat standard deduction of \$2,200 for singles and heads of households, and \$3,200 for joint returns, as contained in the conference report on the stimulation package.

June 16, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Joe Pechman

SUBJECT: Integration of the Corporation and Individual
Income Taxes

I believe it would be unwise to include integration in the forthcoming tax reform package. Any form of integration will be costly and reduce progressivity. Integration will make equities more attractive, but it may reduce private capital formation, rather than stimulate it.

There are two types of integration—"full" integration and "partial" integration—and both have significant weaknesses. Under full integration, corporate earnings are taxed to shareholders and they receive a full tax credit for the corporate tax (which becomes merely a withholding tax). Under partial integration, shareholders include the corporate tax paid on their dividends in their income and they receive a tax credit for the amount of corporate tax so included. In effect, full integration eliminates the entire corporate tax; partial integration removes the corporate tax only to the extent earnings are paid out.

Partial Integration

Partial integration would put great pressure on corporations to increase dividends if the top individual income tax rate were brought down to the level of the corporate rate. Given such rates, a corporate manager who retained any part of the earnings of a corporation would be denying his shareholders (except those subject to the top rate) a tax credit for the retentions. In effect, the shareholder would be making a forced loan to the corporation for the credits he was denied.

I would expect that the pressure to distribute would be so great that corporations would increase dividend payouts and request

their stockholders to reinvest their dividends automatically through dividend reinvestment plans. The earnings that would be available for corporate reinvestment could be no higher than it is at present; it would be lower to the extent that the shareholders did not reinvest their dividends. The corporation could turn to the capital markets for additional funds; but, even if stocks became more attractive, it is uncertain whether the corporations would or could replace their lost retained earnings from outside sources. In these circumstances, the vulnerability of some businesses to financial market conditions would be increased and corporate investment might be reduced.

Another reason why investment might be reduced is that the integration proposals envisage denying the corporate tax preferences in calculating the corporate tax credit allowed to shareholders. The most important of the preferences is the investment credit, which now amounts to almost \$10 billion a year. Denial of the preferences is considered necessary to reduce the revenue loss from integration and also to avoid the criticism that the shareholder would otherwise be given a credit for a tax he did not pay. A pass-through of the investment credit to shareholders would treat them on a par with sole proprietorships and partnerships, but the criticism will be hard to respond to. Under the circumstances, the effectiveness of the investment credit as a stimulus would be undermined.

Full Integration

Full integration has the merit that it would provide tax credits for shareholders whether dividends were paid or not. Thus, there would be no pressure on corporations to increase their payouts. (In fact, the availability of the credits might justify reducing payouts.) Internal funds for investment purposes are therefore likely to be unimpaired and might even be increased.

The difficulty is that a pass-through of the investment credit is even less likely under full than under partial integration. Again, the greater attractiveness of corporate equities might offset the incentive lost by the effective repeal of the investment tax credit, but there is considerable danger that it would not.

Another problem with full integration is that it will be difficult to implement. Shareholders will be required to keep track of the corporate earnings on which they were taxed and therefore automatically reinvested. In addition, an arbitrary rule would be required to allocate earnings to part-year shareholders. These problems are not insuperable, but they make full integration less attractive.

Finally, under both integration schemes, tax exempt organizations would not be given any credit for the corporation tax paid on their shareholders. This is considered necessary to avoid the loss in revenue, which would be of the order of \$6-12 billion (depending upon which method was used). The denial of the benefits of integration to pension funds will be regarded as a discrimination against labor; and educational and other nonprofit organizations will argue that this back door method of taxing them should be removed when the burden of the corporation income tax is being lifted from nontaxable individuals.

Conclusion

I conclude that it would be unwise to give up a significant amount of revenue for integration and to link it with the forthcoming tax reform package. The issues in integration are serious enough to warrant additional study before a presidential recommendation is made. Moreover, if the objective is to stimulate capital formation, it would be more effective to provide direct incentives through such devices as more acceleration of depreciation and an improved or enlarged investment credit. A cut in the corporate tax rate, say, from 48 to 45 percent, would also be in order if individual income tax rates are reduced. To keep the regressive effect of business tax changes to moderate proportions, the net tax cut to corporate enterprises—after making adjustments to offset the revenues gained from the removal of preferences—might be limited to \$2-3 billion.